ASML

Financial Statements

Index to Financial Statements

F-2 Consolidated Statements of Operations for the years ended December 31, 2006, 2007 and 2008

F-2 Consolidated Statements of Comprehensive Income for the years ended December 31, 2006, 2007 and 2008

F-3 Consolidated Balance Sheets as of December 31, 2007 and 2008

F-4 Consolidated Statements of Shareholders' Equity for the years ended December 31, 2006, 2007 and 2008

F-6 Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2007 and 2008

F-7 Notes to the Consolidated Financial Statements

F-48 Report of Independent Registered Public Accounting Firm

Consolidated Statements of Operations

Notes	Year ended December 31 (in thousands, except per share data)	2006[1] EUR	2007[1,2] EUR	2008 EUR
20	Net system sales	3,213,736	3,351,281	**2,516,762**
	Net service and field option sales	368,040	416,904	**436,916**
20	**Total net sales**	3,581,776	3,768,185	**2,953,678**
	Cost of system sales	1,904,073	1,943,779	**1,631,069**
	Cost of service and field option sales	223,724	274,747	**307,095**
22	**Total cost of sales**	2,127,797	2,218,526	**1,938,164**
	Gross profit on sales	1,453,979	1,549,659	**1,015,514**
22	Research and development costs	413,708	510,503	**538,324**
3, 11	Amortization of in-process research and development costs	—	23,148	**—**
	Research and development credits	(27,141)	(24,362)	**(22,196)**
22	Selling, general and administrative costs	204,799	225,668	**212,341**
	Income from operations	862,613	814,702	**287,045**
	Interest income	49,634	78,165	**72,497**
	Interest expense	(50,488)	(44,714)	**(49,898)**
	Income from operations before income taxes	861,759	848,153	**309,644**
19	(Provision for) benefit from income taxes	(243,211)	(177,152)	**12,726**
	Net income	618,548	671,001	**322,370**
	Basic net income per ordinary share	1.30	1.45	**0.75**
	Diluted net income per ordinary share	1.26	1.41	**0.74**
	Number of ordinary shares used in computing per share amounts (in thousands)			
	Basic	474,860	462,406	**431,620**
	Diluted	503,983	485,643	**434,205**

Consolidated Statements of Comprehensive Income

Year ended December 31 (in thousands)	2006[1] EUR	2007[1,2] EUR	2008 EUR
Net income	618,548	671,001	**322,370**
Gain (loss) on foreign currency translation, net of taxes	(20,104)	(23,294)	**(12,734)**
Gain (loss) on derivative instruments, net of taxes	11,240	(3,450)	**(43,579)**
Comprehensive income	609,684	644,257	**266,057**

1 As of January 1, 2008 ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until December 31, 2007 ASML accounted for award credits using the cost accrual method. The comparative figures for the years 2007 and 2006 have been adjusted to reflect this change in accounting policy. See note 1 to the consolidated financial statements.

2 In 2008, subsequent to the filing of the 2007 annual report on Form 20-F, ASML detected and made a correction for a prior period error with respect to a release of deferred tax liabilities of EUR 8.7 million. This release was incorrectly recognized in the 2007 consolidated statement of operations under (provision for) benefit from income taxes instead of in equity under other comprehensive income. The 2007 figures have been adjusted to reflect this correction. See Note 1 to the consolidated financial statements.

Consolidated Balance Sheets

Notes	As of December 31 (in thousands, except share and per share data)	2007[1,2] EUR	**2008** **EUR**
	Assets		
5	Cash and cash equivalents	1,271,636	**1,109,184**
6	Accounts receivable, net	637,975	**463,273**
7	Finance receivables, net	—	**6,225**
19	Current tax assets	—	**87,560**
8	Inventories, net	1,102,210	**999,150**
19	Deferred tax assets	78,395	**71,780**
9	Other assets	234,529	**236,077**
	Total current assets	3,324,745	**2,973,249**
7	Finance receivables, net	—	**31,030**
19	Deferred tax assets	141,032	**148,133**
9	Other assets	59,991	**88,197**
10	Goodwill	128,271	**131,453**
11	Other intangible assets, net	38,195	**26,692**
12	Property, plant and equipment, net	380,894	**540,640**
	Total non-current assets	748,383	**966,145**
	Total assets	4,073,128	**3,939,394**
	Liabilities and shareholders' equity		
	Accounts payable	282,953	**193,690**
13	Accrued liabilities and other liabilities	939,122	**789,788**
19	Current tax liabilities	104,632	**20,039**
14	Provisions	—	**4,678**
19	Deferred tax	50	**148**
	Total current liabilities	1,326,757	**1,008,343**
15	Long-term debt	602,016	**647,050**
19	Deferred and other tax liabilities	245,415	**209,699**
14	Provisions	—	**15,495**
13	Accrued liabilities and other liabilities	7,936	**70,038**
	Total non-current liabilities	855,367	**942,282**
	Total liabilities	2,182,124	**1,950,625**
16, 18	Commitments and contingencies	—	**—**
	Cumulative Preference Shares; EUR 0.02 nominal value; 3,150,005,000 shares authorized; none issued and outstanding at December 31, 2007 and 2008	—	**—**
	Ordinary Shares; EUR 0.09 and EUR 0.01 nominal value; respectively 700,000,000 and 10,000 shares authorized; respectively 435,625,934 and none issued and outstanding at December 31, 2007; respectively 432,073,534 and none issued and outstanding at December 31, 2008	39,206	**38,887**
	Share premium	463,846	**474,765**
	Treasury shares at cost	(198,893)	**(253,436)**
	Retained earnings	1,500,908	**1,698,929**
	Accumulated other comprehensive income	85,937	**29,624**
24	**Total shareholders' equity**	1,891,004	**1,988,769**
	Total liabilities and shareholders' equity	4,073,128	**3,939,394**

1 As of January 1, 2008 ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until December 31, 2007 ASML accounted for award credits using the cost accrual method. The comparative figures for the years 2007 and 2006 have been adjusted to reflect this change in accounting policy. See note 1 to the consolidated financial statements.

2 In 2008, subsequent to the filing of the 2007 annual report on Form 20-F, ASML detected and made a correction for a prior period error with respect to a release of deferred tax liabilities of EUR 8.7 million. This release was incorrectly recognized in the 2007 consolidated statement of operations under (provision for) benefit from income taxes instead of in equity under other comprehensive income. The 2007 figures have been adjusted to reflect this correction. See Note 1 to the consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(in thousands)	Issued and outstanding Shares Number[1]	Amount EUR	Share Premium EUR	Retained Earnings[5,6] EUR	Treasury Shares at cost EUR	Accumulated Other Comprehensive Income[6] EUR	**Total EUR**
Balance at January 1, 2006	484,670	9,694	917,564	660,723	—	121,545	**1,709,526**
Components of comprehensive income:							
Net income	—	—	—	618,548	—	—	**618,548**
Foreign Currency Translation, net of taxes	—	—	—	—	—	(20,104)	**(20,104)**
Gain (loss) on derivative instruments, net of taxes	—	—	—	—	—	11,240	**11,240**
Share-based payments	—	—	9,667	—	—	—	**9,667**
Purchase of treasury shares	(25,450)	—	—	—	(401,000)	—	**(401,000)**
Purchase of shares in conjunction with conversion rights of bond holders	(14,935)	(299)	—	—	(277,235)	—	**(277,534)**
Issuance of shares in conjunction with convertible bonds	30,811	616	238,862	(48,034)	277,235	—	**468,679**
Tax benefit from stock options	—	—	2,906	—	—	—	**2,906**
Issuance of shares and stock options	2,003	40	26,035	—	—	—	**26,075**
Balance at December 31, 2006	477,099	10,051	1,195,034	1,231,237	(401,000)	112,681	**2,148,003**
Components of comprehensive income:							
Net income	—	—	—	671,001	—	—	**671,001**
Foreign Currency Translation, net of taxes	—	—	—	—	—	(23,294)	**(23,294)**
Gain (loss) on derivative instruments, net of taxes	—	—	—	—	—	(3,450)	**(3,450)**
Share-based payments	—	—	16,506	—	—	—	**16,506**
Cumulative effect of applying the provisions of FIN 48	—	—	—	(7,648)	—	—	**(7,648)**
Purchase of shares in conjunction with conversion rights of bond holders and share-based payment plans[2]	(17,000)	(970)	—	—	(358,886)	—	**(359,856)**
Issuance of shares in conjunction with convertible bonds	26,232	718	288,360	(35,366)	130,317	—	**384,029**
Capital repayment[3]	(55,093)	29,748	(1,041,605)	—	—	—	**(1,011,857)**
Cancellation of treasury shares	—	(509)	(48,563)	(351,928)	401,000	—	**—**
Tax benefit from stock options	—	—	9,006	—	—	—	**9,006**
Issuance of shares and stock options	4,388	168	45,108	(6,388)	29,676	—	**68,564**
Balance at December 31, 2007	435,626	39,206	463,846	1,500,908	(198,893)	85,937	**1,891,004**
Components of comprehensive income:							
Net income	—	—	—	322,370	—	—	**322,370**
Foreign Currency Translation, net of taxes	—	—	—	—	—	(12,734)	**(12,734)**
Gain (loss) on derivative instruments, net of taxes	—	—	—	—	—	(43,579)	**(43,579)**
Share-based payments	—	—	13,535	—	—	—	**13,535**
Purchase of shares in conjunction with share-based payment plans	(5,000)	(450)	—	—	(87,155)	—	**(87,605)**
Dividend payment[4]	—	—	—	(107,841)	—	—	**(107,841)**
Tax benefit from stock options	—	—	2,144	—	—	—	**2,144**
Issuance of shares and stock options	1,448	131	(4,760)	(16,508)	32,612	—	**11,475**
Balance at December 31, 2008	432,074	38,887	474,765	1,698,929	(253,436)	29,624	**1,988,769**

1 As of December 31, 2008, the number of issued shares was 444,480,095. This includes the number of issued and outstanding shares of 432,073,534 and the number of treasury shares of 12,406,561. As of December 31, 2007, the number of issued shares was 444,480,095. This included the number of issued and outstanding shares of 435,625,934 and the number of treasury shares of 8,854,161.
2 In 2007, 17,000,000 shares were repurchased, some of which were re-issued in order to cover exercised stock options and to satisfy the conversion rights of holders of our 5.50 percent Convertible Subordinated Notes. See Note 25 for further information.
3 In 2007, as part of a capital repayment program, EUR 1,012 million of equity was repaid to our shareholders and the number of outstanding ordinary shares was reduced by 11 percent. See Note 25 for further information.
4 In 2008, ASML paid out a dividend of EUR 108 million to its shareholders, see note 24 for further information.
5 As of January 1, 2008 ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until December 31, 2007 ASML accounted for award credits using the cost accrual method. The comparative figures for the years 2007 and 2006 have been adjusted to reflect this change in accounting policy. See note 1 to the consolidated financial statements.
6 In 2008, subsequent to the filing of the 2007 annual report on Form 20-F, ASML detected and made a correction for a prior period error with respect to a release of deferred tax liabilities of EUR 8.7 million. This release was incorrectly recognized in the 2007 consolidated statement of operations under (provision for) benefit from income taxes instead of in equity under other comprehensive income. The 2007 figures have been adjusted to reflect this correction. See Note 1 to the consolidated financial statements.

Consolidated Statements of Cash Flows

Year ended December 31 (in thousands)	2006[1] EUR	2007[1,2] EUR	**2008 EUR**
Cash Flows from Operating Activities			
Net income	618,548	671,001	**322,370**
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization	87,092	126,344	**119,190**
Impairment	17,354	9,022	**25,109**
Loss on disposals of property, plant and equipment[3]	5,106	14,210	**4,257**
Share-based payments[3]	9,667	16,506	**13,535**
Allowance for doubtful debts	249	(178)	**188**
Allowance for obsolete inventory	54,181	79,592	**139,628**
Deferred income taxes	(71,349)	106,403	**(34,155)**
Changes in assets and liabilities that provided (used) cash:			
Accounts receivable	(362,388)	42,410	**132,147**
Inventories	(85,213)	(438,746)	**(87,804)**
Other assets	(31,366)	(86,053)	**(76,342)**
Accounts payable	(8,916)	(38,944)	**(94,375)**
Income taxes payable	97,740	(74,428)	**(158,277)**
Other liabilities	161,575	273,872	**(24,725)**
Net cash provided by operating activities	492,280	701,011	**280,746**
Cash Flows from Investing Activities			
Purchases of property, plant and equipment	(70,619)	(179,152)	**(259,770)**
Proceeds from sale of property, plant and equipment[3]	110	5,011	**—**
Purchases of intangible assets	(120)	—	**(35)**
Acquisition of subsidiary (net of cash acquired)	—	(188,011)	**—**
Net cash used in investing activities	(70,629)	(362,152)	**(259,805)**
Cash Flows from Financing Activities			
Capital repayment	—	(1,011,857)	**—**
Purchase of treasury shares	(401,000)	—	**—**
Purchase of shares in conjunction with conversion rights of bondholders and stock options	(277,385)	(359,856)	**(87,605)**
Net proceeds from issuance of shares and stock options[3]	26,173	63,307	**11,475**
Dividend paid	—	—	**(107,841)**
Net proceeds from issuance of bond	—	593,755	**—**
Redemption and/or repayment of debt	(8,318)	(9,718)	**(2,411)**
Excess tax benefits from stock options	2,906	9,006	**2,144**
Net cash used in financing activities	(657,624)	(715,363)	**(184,238)**
Net cash flows	(235,973)	(376,504)	**(163,297)**
Effect of changes in exchange rates on cash	(12,779)	(7,717)	**845**
Net decrease in cash and cash equivalents	(248,752)	(384,221)	**(162,452)**
Cash and cash equivalents at beginning of the year	1,904,609	1,655,857	**1,271,636**
Cash and cash equivalents at end of the year	1,655,857	1,271,636	**1,109,184**
Supplemental Disclosures of Cash Flow Information:			
Cash paid for:			
Interest	48,656	38,936	**40,247**
Taxes	217,466	167,268	**167,360**
Supplemental non-cash investing and financing activities:			
Conversion of bonds into 30,811,215, 26,232,275 and 0 ordinary shares respectively in 2006, 2007 and 2008	459,087	378,413	**—**

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2 In 2008, subsequent to the filing of the 2007 annual report on Form 20-F, ASML detected and made a correction for a prior period error with respect to a release of deferred tax liabilities of EUR 8.7 million. This release was incorrectly recognized in the 2007 consolidated statement of operations under (provision for) benefit from income taxes instead of in equity under other comprehensive income. The 2007 figures have been adjusted to reflect this correction. See Note 1 to the consolidated financial statements.

3 In 2008, ASML made reclassifications for share-based payments and loss on disposals of property, plant and equipment to improve the understanding of the consolidated statements of cash flows. We have adjusted the comparative figures of 2006 and 2007 accordingly.

Notes to the Consolidated Financial Statements

1. General information / Summary of significant accounting policies

ASML Holding N.V., with its corporate headquarters in Veldhoven, the Netherlands, is engaged in the development, production, marketing, sale and servicing of advanced semiconductor equipment systems exclusively consisting of lithography systems. ASML's principal operations are in the Netherlands, the United States of America and Asia.

The Company's shares are listed for trading in the form of registered shares on NASDAQ Global Select Market ("New York shares") and in the form of registered shares on Euronext Amsterdam ("Amsterdam Shares"). The principal trading market of the Company's ordinary shares is Euronext Amsterdam.

The accompanying consolidated financial statements include the financial statements of ASML Holding N.V. headquartered in Veldhoven, the Netherlands, and its consolidated subsidiaries (together referred to as "ASML" or the "Company").

Basis of preparation

The accompanying consolidated financial statements are stated in thousands of euro ("EUR") unless indicated otherwise. ASML follows accounting principles generally accepted in the United States of America ("U.S. GAAP"). ASML's reporting currency is the euro.

Change in accounting policy

The accounting policies applied in financial year 2008 are unchanged compared to the previous financial year except for the accounting of free or discounted products or services (award credits) offered to ASML's customers as part of a volume purchase agreement.

Until December 31, 2007, ASML accounted for award credits offered to its customers based on the cost accrual method. Under the cost accrual method the estimated future costs of the award credits were recognized as a liability until the award credits were delivered to the customer. As of January 1, 2008, ASML accounts for award credits based on the deferred revenue method. Under the deferred revenue method a sales transaction that gives rise to award credits is accounted for as a multiple element revenue transaction. The consideration received from the sales transaction is allocated between the award credits and the other elements of the sales transaction. The consideration allocated to the award credits is recognized as deferred revenue until the award credits are delivered to the customer.

We believe that the use of the deferred revenue method is preferable since it better reflects the substance of the transaction and the business rationale of granting the customer award credits since compared to previous years, award credits are more often used as a sales incentive tool. Further, we believe that the deferred revenue model improves the understanding of ASML's business performance because this model has a direct impact on important business indicators like the average sales price and gross margin.

The comparative figures for 2006 and 2007 have been adjusted to reflect the change in accounting policy. The shareholders' equity as of January 1, 2006 was negatively impacted with EUR 2.3 million. The impact on the 2006, 2007 and 2008 consolidated statements of operations and the per-share amounts is as follows:

Year ended December 31	**2006**	**2007**	**2008**
(in millions, except per share data)	EUR	EUR	**EUR**
Net system sales	(15)	(41)	**56**
Cost of system sales	(7)	(30)	**36**
Income from operations	(8)	(11)	**20**
Net income	(6)	(8)	**16**
Basic net income per ordinary share	(0.02)	(0.02)	**0.04**
Diluted net income per ordinary share	(0.01)	(0.02)	**0.04**

Prior period error

In December 2007, ASML reached an agreement with the Netherlands tax authorities on the fiscal treatment of the gains and losses on the Company's net investment hedges in foreign operations. This resulted in a release of deferred tax liabilities of EUR 8.7 million which was incorrectly recognized under the (provision for) benefit from income taxes in the consolidated statement of operations instead of in equity under other comprehensive income in 2007. In 2008, subsequent to the filing of the

2007 annual report on Form 20-F, ASML detected and made a correction for this prior period error. The comparative figures for the year 2007 have been adjusted to correct this error. This correction had a positive impact on shareholders' equity and a negative impact on net income of EUR 8.7 million. The negative impact of the correction on the 2007 basic and diluted net income per ordinary share amounts to EUR 0.02 and EUR 0.01, respectively.

Use of estimates

The preparation of ASML's consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities on the balance sheet dates, and the reported amounts of revenue and expense during the reported periods. Actual results could differ from those estimates.

Principles of consolidation

The consolidated financial statements include the accounts of ASML Holding N.V. and all of its majority-owned subsidiaries. All intercompany profits, balances and transactions have been eliminated in the consolidation.

Subsidiaries

Subsidiaries are all entities over which ASML has the power to govern financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. As from the date that these criteria are met, the financial data of the relevant company are included in the consolidation.

Acquisitions of subsidiaries are included on the basis of the 'purchase accounting' method. The cost of acquisition is measured as the cash payment made, the fair value of other assets distributed and the fair value of liabilities incurred or assumed at the date of exchange, plus the costs that can be allocated directly to the acquisition. The excess of the costs of an acquired subsidiary over the net of the amounts assigned to assets acquired and liabilities incurred or assumed is capitalized as goodwill.

Foreign currency translation

The financial information for subsidiaries outside the euro-zone is generally measured using local currencies as the functional currency. The financial statements of those foreign subsidiaries are translated into euro in the preparation of ASML's consolidated financial statements. Assets and liabilities are translated into euro at the exchange rate in effect on the respective balance sheet dates. Income and expenses are translated into euro based on the average exchange rate for the corresponding period. The resulting translation adjustments are recorded directly in shareholders' equity. Currency differences on intercompany loans that have the nature of a long-term investment are also accounted for directly in shareholders' equity.

Derivative instruments

The Company principally uses derivative hedging instruments for the management of foreign currency risks and interest rate risks. In accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities an amendment of SFAS No. 133", the Company measures all derivative hedging instruments based on fair values derived from market prices of the instruments. The Company adopts hedge accounting for hedges that are highly effective in offsetting the identified hedged risks as required by the SFAS No. 133 effectiveness criteria.

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as either:

- A hedge of the exposure to changes in the fair value of a recognized asset or liability, or of an unrecognized firm commitment, that are attributable to a particular risk (fair value hedge);
- A hedge of the exposure to variability in the cash flows of a recognized asset or liability, or of a forecasted transaction, that is attributable to a particular risk (cash-flow hedge); or
- A hedge of the foreign currency exposure of a net investment in a foreign operation (net investment hedge);

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk-management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash-flows of hedged items.

Fair-value hedge

Changes in the fair value of a derivative that is designated and qualifies as a fair value hedge, along with the gain or loss on the hedged asset or liability, that is attributable to the hedged risk, are recorded in the consolidated statements of operations. The Company designates foreign currency hedging instruments as a hedge of the fair value of a recognized asset or liability in non-

functional currencies. The gain or loss relating to the ineffective portion of foreign currency hedging instruments is recognized in the consolidated statements of operations as “net sales” or “cost of sales”.

Interest rate swaps that are being used to hedge the fair value of fixed loan coupons payable are designated as fair-value hedges. The change in fair value is intended to offset the change in the fair value of the underlying fixed loan coupons, which is recorded accordingly. The gain or loss relating to the ineffective portion of interest rate swaps hedging fixed loan coupons payable is recognized in the consolidated statements of operations as “interest income” or “interest expenses”.

Cash-flow hedge
Changes in the fair value of a derivative that is designated and qualifies as a cash-flow hedge are recorded in other comprehensive income, net of taxes, until the underlying hedged transaction is recognized in the consolidated statements of operations. In the event that the underlying hedge transaction will not occur within the specified time period, the gain or loss on the related cash-flow hedge is immediately released from other comprehensive income and included in the consolidated statements of operations.

Foreign currency hedging instruments that are being used to hedge cash-flows related to future sales or purchase transactions in non-functional currencies are designated as cash-flow hedges. The gain or loss relating to the ineffective portion of the foreign currency hedging instruments is recognized in the consolidated statements of operations in “sales” or “cost of sales”.

Interest-rate swaps that are being used to hedge changes in the variability of future interest receipts are designated as cash-flow hedges. The changes in fair value of the derivatives are intended to offset changes in future interest cash-flows on the assets. The gain or loss relating to the ineffective portion of interest rate swaps hedging the variability of future interest receipts is recognized in the consolidated statements of operations as “interest income” or “interest expense”.

Net-investment hedge
Foreign currency hedging instruments that are being used to hedge changes in the value of a net investment are designated as net investment hedges. Changes in the fair value of a derivative that is designated and qualifies as a net investment hedge are recorded in other comprehensive income, net of taxes. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statements of operations as “interest income” or “interest expense”. Gains and losses accumulated in other comprehensive income are recognized in the consolidated statements of operations when the foreign operation is partially disposed or sold.

Cash and cash equivalents

Cash and cash equivalents consist primarily of highly liquid investments, such as bank deposits and money market funds, with insignificant interest rate risk and remaining maturities of three months or less at the date of acquisition.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market value. Cost includes net prices paid for materials purchased, charges for freight and customs duties, production labor cost and factory overhead. Allowances are made for slow moving, obsolete or unsaleable inventory.

Goodwill

Goodwill represents the excess of the costs of an acquisition over the fair value of Company’s share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is allocated to reporting units for the purpose of impairment testing. The allocation is made to those reporting units that are expected to benefit from the business combination in which the goodwill arose. Goodwill is tested annually for impairment and whenever events or changes in circumstances indicate that the carrying amount of the goodwill may not be recoverable. Goodwill is stated at cost less accumulated impairment losses.

Other intangible assets

Other intangible assets include acquired intellectual property rights, developed technology, customer relationships and other intangible assets. Acquired intellectual property rights, developed technology, customer relationships and other intangible assets are stated at cost, less accumulated amortization and any accumulated impairment losses. Amortization is calculated using the

straight-line method based on the estimated useful lives of the assets. The following table presents the estimated useful lives of ASML's other intangible assets:

Category	Estimated useful life
Intellectual property rights	3 – 10 years
Developed technology	6 years
Customer relationships	8 years
Other intangible assets	2 – 6 years

Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and any accumulated impairment losses. Costs of assets manufactured by ASML include direct manufacturing costs, production overhead and interest costs incurred for qualifying assets during the construction period. Depreciation is calculated using the straight-line method based on the estimated useful lives of the related assets. In the case of leasehold improvements, the estimated useful lives of the related assets do not exceed the remaining term of the corresponding lease. The following table presents the estimated useful lives of ASML's property, plant and equipment:

Category	Estimated useful life
Buildings and constructions	5 – 40 years
Machinery and equipment	2 – 5 years
Furniture, fixtures and other equipment	3 – 5 years
Leasehold improvements	5 – 10 years

Certain internal and external costs associated with the purchase and/or development of internally used software are capitalized when both the preliminary project stage is completed and management has authorized further funding for the project, which it has deemed probable to be completed and to be usable for the intended function. These costs are amortized on a straight-line basis over the period of related benefit, which ranges primarily from three to five years.

Evaluation of long-lived assets for impairment

Long-lived assets include goodwill, other intangible assets and property, plant and equipment.

Goodwill is tested annually for impairment and whenever events or changes in circumstances indicate that the carrying amount of the goodwill may not be recoverable. Goodwill is tested for impairment based on a two-step approach for each reporting unit. First, the recoverability is tested by comparing the carrying amount of the reporting unit including goodwill with the fair value of the reporting unit, being the sum of the discounted future cash flows. If the carrying amount of the reporting unit is higher than the fair value of the reporting unit, the second step should be performed. The goodwill impairment is measured as the excess of the carrying amount of the goodwill over its implied fair value. The implied fair value of goodwill is determined by calculating the fair value of the various assets and liabilities included in the reporting unit in the same manner as goodwill is determined in a business combination.

Other intangible assets and property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. Other intangible assets and property, plant and equipment are tested for impairment based on a two-step approach. First, the recoverability is tested by comparing the carrying amount of the other intangible assets and property, plant and equipment with the fair value being the sum of the undiscounted future cash flows. If the carrying amount of the other intangible assets and property, plant and equipment is higher than the fair value the assets are considered to be impaired. An impairment expense is recognized for the difference between the carrying amount and the fair value of the other intangible assets and property, plant and equipment.

Provisions

Provisions include employee contract termination benefits and lease contract termination costs.

Provisions for employee contract termination benefits are recognized when ASML is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan where there is no possibility of withdrawal, or when ASML provides termination benefits as a result of an offer made to encourage voluntary redundancy. The timing of recognition and measurement of the provision for employee termination benefits depends on whether employees are required to render

service until they are terminated in order to receive the termination benefits. If employees are not required to render services beyond the minimum retention period, the provision will be recognized at the communication date. If employees are required to render services beyond the minimum retention period the provision will be recognized ratably over the future service period. The provisions are measured at fair value.

Provisions for lease contract termination costs are recognized when costs will continue to be incurred under a contract for its remaining term without economic benefit to the Company and the Company ceases using the rights conveyed by the contract. The provisions are measured at fair value which for an operating lease contract is determined based on the remaining lease payments reduced by the estimated sublease payments that could be reasonably obtained for the building.

Revenue recognition

ASML recognizes revenue when all four revenue recognition criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; seller's price to buyer is fixed or determinable; and collectability is reasonably assured. At ASML, this policy generally results in revenue recognition from the sale of a system upon shipment. The revenue from the installation of a system is generally recognized upon completion of that installation at the customer's site. Each system undergoes, prior to shipment, a "Factory Acceptance Test" in ASML's clean room facilities, effectively replicating the operating conditions that will be present on the customer's site, in order to verify whether the system will meet its standard specifications and any additional technical and performance criteria agreed with the customer. A system is shipped, and revenue is recognized, only after all specifications are met and customer sign-off is received or waived. Although each system's performance is re-tested upon installation at the customer's site, ASML has never failed to successfully complete installation of a system at a customer's premises.

In connection with future introductions of new technology, we will initially defer revenue recognition until completion of installation and acceptance of the new technology at customer premises. This deferral would continue until we are able to conclude that installation of the technology in question would occur consistently within a predetermined time period and that the performance of the new technology would not reasonably be different from that exhibited in the pre-shipment Factory Acceptance Test. Any such deferral of revenues, however, could have a material effect on ASML's results of operations for the fiscal period in which the deferral occurred and on the succeeding fiscal period. At December 31, 2008 and 2007, we had no deferred revenue from shipments of new technology. During the three years ended December 31, 2008, no revenue from new technology was recorded that had been previously deferred. As our systems are based largely on two product platforms that permit incremental, modular upgrades, the introduction of genuinely "new" technology occurs infrequently, and has occurred on only one occasion since 1999.

ASML has no significant repurchase commitments in its general sales terms and conditions. From time to time the Company repurchases systems that it has manufactured and sold and, following refurbishment, resells those systems to other customers. This repurchase decision is driven by market demand expressed by other customers and not by explicit or implicit contractual arrangements relating to the initial sale. The Company considers reasonable offers from any vendor, including customers, to repurchase used systems so that it can refurbish, resell and install these systems as part of its normal business operations. Once repurchased, the repurchase price of the used system is recorded in work-in-process inventory during the period it is being refurbished, following which the refurbished system is reflected in finished products inventory until it is sold to the customer. As of December 31, 2008 ASML has no repurchase commitments (2007: EUR 53 million).

A portion of our revenue is derived from contractual arrangements with our customers that have multiple deliverables, such as installation and training services, prepaid service contracts and prepaid extended optic warranty contracts. The revenue relating to the undelivered elements of the arrangements is deferred at fair value until delivery of these elements. The fair value is determined by vendor-specific objective evidence ("VSOE") except the fair value of the prepaid extended optic warranty which is based on the list price. VSOE is determined based upon the prices that we charge for installation, training, prepaid services and comparable services (such as relocating a system to another customer site) on a stand-alone basis, which are subject to normal price negotiations. Revenue from installation and training services is recognized when the services are completed. Revenue from prepaid service contracts and prepaid extended optic warranty contracts is recognized over the term of the contract.

The deferred revenue balance from installation and training services amounted to approximately EUR 3 million and EUR 15 million, respectively, as of December 31, 2008.

The deferred revenue balance from prepaid service contracts and prepaid extended optic warranty contracts amounted to approximately EUR 118 million and EUR 55 million, respectively, as of December 31, 2008.

We offer customers discounts in the normal course of sales negotiations. These discounts are directly deducted from the gross sales price at the moment of revenue recognition. From time to time, we offer volume discounts to a limited number of customers. In some instances these volume discounts can be used to purchase field options (system enhancements). The related amount is recorded as a reduction in revenue at time of shipment. From time to time, we offer free or discounted products or services

(award credits) to our customers as part of a volume purchase agreement. The sales transaction that gives rise to these award credits is accounted for as a multiple element revenue transaction. The fair value of the consideration received for the sales transaction is allocated between the award credits and the other elements of the sales transaction. The consideration allocated to the award credits is recognized as deferred revenue until award credits are delivered to the customer.

Revenues are recognized excluding the taxes levied on revenues (net basis).

Warranty

We provide standard warranty coverage on our systems for twelve months and on certain optic parts for sixty months, providing labor and parts necessary to repair systems and optic parts during the warranty period. The estimated warranty costs are accounted for by accruing these costs for each system upon recognition of the system sale. The estimated warranty costs are based on historical product performance and field expenses. Based upon historical service records, we calculate the charge of average service hours and parts per system to determine the estimated warranty charge. We update these estimated charges periodically.

Accounting for shipping and handling fees and costs

ASML bills the customer for, and recognizes as revenue, any charges for shipping and handling costs. The related costs are recognized as cost of sales.

Cost of sales

Cost of system sales comprise direct product costs such as materials, labor, cost of warranty, depreciation, shipping and handling costs and related overhead costs. ASML accrues for the estimated cost of the warranty on its systems, which includes the cost of labor and parts necessary to repair systems during the warranty period. The amounts recorded in the warranty accrual are estimated based on actual historical expenses incurred and on estimated probable future expenses related to current sales. Actual warranty costs are charged against the accrued warranty reserve.

Costs of service sales comprise direct service costs such as materials, labor, depreciation and overhead costs.

Research and development costs and credits

Costs relating to research and development are charged to operating expense as incurred. ASML receives subsidies and other credits only from governmental institutes. These subsidies and other governmental credits to cover research and development costs relating to approved projects are recorded as research and development credits in the period when such costs occur.

Share-based payments

The cost of employee services received (compensation expenses) in exchange for awards of equity instruments are recognized based upon the grant-date fair value of stock options and stock. The grant-date fair value of stock options is estimated using a Black-Scholes option valuation model. This Black-Scholes model requires the use of assumptions, including expected stock price volatility, the estimated life of each award and the estimated dividend yield. The risk-free interest rate used in the model is determined, based on a Euro government bond with a life equal to the expected life of the equity-settled share-based payments. The fair value of stock is determined based on the closing price of the Company's ordinary shares on the Euronext Amsterdam on the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At each balance sheet date, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in the consolidated statements of operations in the period in which the revision is determined, with a corresponding adjustment to equity.

We make quarterly assessments of the adequacy of the (hypothetical) tax pool to determine whether there are tax deficiencies that require recognition in the consolidated statements of operations. We have selected the alternative transition method (under FSP FAS 123(R)-3) in order to calculate the tax pool.

Our current share-based payment plans do not provide for cash settlement of options and stock.

Income taxes

The asset and liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the tax effect of incurred net operating losses and for tax consequences attributable to differences between the balance sheet carrying amounts of existing assets and liabilities and their respective tax bases. If it is more likely than not that the carrying amounts of deferred tax assets will not be realized, a valuation allowance is recorded to reduce the carrying amounts of those assets.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of operations in the period that includes the enactment date.

On January 1, 2007 we adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB No. 109" (FIN 48). FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Contingencies and litigation

We are party to various legal proceedings generally incidental to our business, as disclosed in Note 18 to the consolidated financial statements. In connection with these proceedings and claims, our management evaluated, based on the relevant facts and legal principles, the likelihood of an unfavorable outcome and whether the amount of the loss could be reasonably estimated. In each case, management determined that either a loss was not probable or was not reasonably estimable. As a result, no estimated losses were recorded as a charge to our consolidated statements of operations in 2006, 2007 and 2008. Significant subjective judgments were required in these evaluations, including judgments regarding the validity of asserted claims and the likely outcome of legal and administrative proceedings. The outcome of these proceedings, however, is subject to a number of factors beyond our control, most notably the uncertainty associated with predicting decisions by courts and administrative agencies. In addition, estimates of the potential costs associated with legal and administrative proceedings frequently cannot be subjected to any sensitivity analysis, as damage estimates or settlement offers by claimants may bear little or no relation to the eventual outcome. Finally, in any particular proceeding, we may agree to settle or to terminate a claim or proceeding in which we believe that we would ultimately prevail where we believe that doing so, when taken together with other relevant commercial considerations, is more cost-effective than engaging in an expensive and protracted litigation, the outcome of which is uncertain.

We accrue for legal costs related to litigation in our consolidated statements of operations at the time when the related legal services are actually provided to us.

Net income per ordinary share

Basic net income per share is computed by dividing net income by the weighted average ordinary shares outstanding for that period. Diluted net income per share reflects the potential dilution that could occur if options issued under ASML's share-based payment plan were exercised, and if ASML's convertible notes were converted, unless the exercise of the stock options or conversion of the convertible notes would have an anti-dilutive effect. The dilutive effect is calculated using the if-converted method. Following this method, ASML's convertible bonds are considered dilutive in 2006 and 2007. Excluded from the diluted weighted average number of shares outstanding calculation are cumulative preference shares contingently issuable to the preference share foundation, since they represent a different class of stock than the ordinary shares. See further discussion in Note 24.

The earnings per share (EPS) data have been calculated in accordance with the following schedule:

As of December 31 (in thousands, except per share data)	2006[1] EUR	2007[1,2] EUR	2008 EUR
Basic EPS computation:			
Net income available to holders of common shares	618,548	671,001	**322,370**
Weighted average number of shares outstanding (after deduction of treasury stock) during the year	474,860	462,406	**431,620**
Basic earnings per share	1.30	1.45	**0.75**
Diluted EPS computation:			
Net income available to holders of common shares	618,548	671,001	**322,370**
Plus interest on assumed conversion of convertible subordinated notes, net of taxes	14,714	11,850	**—**
Net income available to holders of common shares plus effect of assumed conversions	633,262	682,851	**322,370**
Weighted average number of shares:	474,860	462,406	**431,620**
Plus shares applicable to:			
Stock options	2,550	4,569	**2,585**
Convertible subordinated notes	26,573	18,668	**—**
Dilutive potential common shares	29,123	23,237	**2,585**
Adjusted weighted average number of shares	503,983	485,643	**434,205**
Diluted earnings per share	1.26	1.41	**0.74**

1 As of January 1, 2008 ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until December 31, 2007 ASML accounted for award credits using the cost accrual method. The comparative figures for the years 2007 and 2006 have been adjusted to reflect this change in accounting policy. See note 1 to the consolidated financial statements.

2 In 2008, subsequent to the filing of the 2007 annual report on Form 20-F, ASML detected and made a correction for a prior period error with respect to a release of deferred tax liabilities of EUR 8.7 million. This release was incorrectly recognized in the 2007 consolidated statement of operations under (provision for) benefit from income taxes instead of in equity under other comprehensive income. The 2007 figures have been adjusted to reflect this correction. See Note 1 to the consolidated financial statements.

Comprehensive income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income refers to revenues, expenses, gains and losses that are not included in net income, but recorded directly in shareholders' equity. For the years ended December 31, 2006, 2007 and 2008, comprehensive income consists of net income, unrealized gains and losses on derivative instruments, net of taxes, and unrealized gains and losses on foreign currency translation, net of taxes.

New U.S. GAAP Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations". This statement replaces FASB Statement No. 141 "Business Combinations". SFAS 141(R) improves the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. This FASB statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We are currently assessing the impact that SFAS 141(R) may have on our consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP FAS 142-3"). This FASB Staff Position (FSP) amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, "Goodwill and Other Intangible Assets". FSP FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We are currently assessing the impact that FSP SFAS 142-3 may have on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). The Statement defines fair value, provides guidance on how to measure assets and liabilities using fair value and expands disclosures about fair value measurements. The Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and should be applied prospectively (with a limited form of retrospective application) as of the beginning of the fiscal year in which this Statement is initially applied.

In February 2008, the FASB issued FASB Staff Position No. 157-2, “Effective date of FASB Statement No. 157” (“FSP FAS 157-2”), which delays the effective date of SFAS 157 for certain non-recurring fair value measurements of non-financial assets and liabilities until fiscal years beginning after November 15, 2008. We are currently assessing the impact that the adoption of SFAS No. 157 as delayed by FSP FAS 157-2 may have on our consolidated financial statements. ASML has only partially adopted SFAS 157. We have not applied SFAS 157 for impairment assessments of non-financial long-lived assets and goodwill.

In October 2008, the FASB issued FASB Staff Position No. FAS 157-3, “Determining the Fair value of a Financial Asset in a Market That Is Not Active” (“FSP FAS 157-3”), which clarifies the application of SFAS 157 when the market for a financial asset is inactive. Specifically, FSP FAS 157-3 clarifies how (1) management’s internal assumptions should be considered in measuring fair value when observable data are not present, (2) observable market information from an inactive market should be taken into account, and (3) the use of broker quotes or pricing services should be considered in assessing the relevance of observable and unobservable data to measure fair value. The guidance in FSP FAS 157-3 is effective immediately and will apply to ASML upon adoption of SFAS 157. We believe that the adoption of FSP FAS 157-3 for the items currently deferred by FSP FAS 157-2 will not have a material impact on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities” (“SFAS 161”). This statement is intended to enhance required disclosures regarding derivatives and hedging activities, including enhanced disclosures regarding how: (a) an entity uses derivative instruments; (b) derivative instruments and related hedged items are accounted for under FASB No. 133, Accounting for Derivative Instruments and Hedging Activities; and (c) derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash-flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. We are currently assessing the impact that SFAS 161 may have on our consolidated financial statements.

2. Significant effects of the current global financial market crisis and economic downturn

As a result of the actions taken to respond to the current global financial market crisis and economic downturn the following charges have been recognized in ASML’s consolidated statements of operations in 2008:

(in thousands)	2008 EUR
Restructuring costs	**22,397**
Inventory obsolescence	**94,601**
Impairments of property, plant and equipment	**20,839**
Total	**137,837**

As a result of the sharp decreases in demand in the fourth quarter of 2008 and in anticipated demand in 2009 caused by the current global financial market crisis and economic downturn, ASML has recognized impairment charges of EUR 20.8 million on property, plant and equipment and inventory obsolescence charges of EUR 94.6 million.

In order to lower its cost and break-even level, ASML announced in December 2008 a reduction in work force of approximately 1,000 employees or 12 percent of the total work force, mainly contract employees. ASML also announced the shutdown of its production facilities for two weeks in the fourth quarter of 2008 and four weeks in the first half of 2009. Furthermore, ASML announced a restructuring that resulted in the discontinuation of its training center in the United States, the downsizing of its United States headquarters and the closure of several other service locations, reflecting the continuing migration of semiconductor manufacturing activities to Asia which has been accelerated by the current global financial market crisis and economic downturn. The restructuring resulted in the recognition of a provision for employee contract termination benefits of EUR 2.4 million, reflecting the elimination of approximately 90 jobs in the United States and approximately 15 jobs at service locations in other parts of the world. As part of this restructuring, ASML ceased the use of its training facility in Tempe, United States, incurring lease contract termination costs of EUR 20.0 million in 2008.

These costs are recognized as follows in the consolidated statements of operations:

(in thousands)	Restructuring costs EUR	Inventory obsolescence EUR	Impairment of property, plant and equipment EUR	Total EUR
Cost of sales	**21,492**	**94,601**	**20,111**	**136,204**
Research and development costs	—	—	**728**	**728**
Selling, general and administrative costs	**905**	—	—	**905**
Total	**22,397**	**94,601**	**20,839**	**137,837**

3. Business combinations

In March 2007, we acquired 100 percent of the outstanding shares of Brion Technologies, Inc. (“Brion”). Brion is a manufacturer of computational lithography products used for the implementation of optical proximity correction (“OPC”) to design data and verification before mask manufacture. The acquisition of Brion enabled ASML to improve the implementation of OPC technology and resolution enhancement techniques such as Double Patterning and Source-Mask Optimization for the masks used on ASML systems and otherwise. These improvements in turn are expected to extend the practical resolution limits of ASML ArF immersion products. We also expect Brion’s computational lithography capability will enable us to offer products that further improve the set-up and control of ASML lithography systems.

The total consideration amounted to EUR 193.3 million. ASML paid EUR 181.1 million in cash, EUR 5.3 million in stock options and EUR 6.9 million in acquisition related costs. ASML assumed all Brion stock options which were outstanding prior to the effective date of the acquisition. The Brion stock options assumed were converted into ASML stock options. The fair value of the stock options was determined using a Black-Scholes option valuation model. The fair value of the stock options relating to past services was part of the total consideration. The fair value of the stock options relating to future services will be part of the future compensation expenses.

The assets and liabilities arising from the acquisition of Brion were as follows:

(in thousands)	Fair value EUR	Acquiree’s carrying amount EUR
Accounts receivable	1,642	1,642
Inventories	1,776	1,776
Other current assets	102	102
Deferred tax assets	3,720	—
Other assets	3,411	3,411
Other intangible assets	61,259	—
Property, plant and equipment	2,529	2,529
Accounts payable	(706)	(706)
Accrued liabilities and other	(8,073)	(14,551)
Deferred tax liabilities	(15,731)	(1,058)
Subtotal	49,929	(6,855)
Goodwill on acquisition	143,340	—
Total	**193,269**	**(6,855)**

The goodwill is attributable to the expected growth potential and synergies expected to arise after the acquisition of Brion. The goodwill recorded as part of the Brion acquisition is not tax deductible.

Other intangible assets of EUR 61.3 million consist of EUR 26.8 million of developed technology, EUR 9.0 million of customer relationships, EUR 23.1 million of in-process research and development and EUR 2.4 million of other intangible assets.

Brion's in-process research and development was fully amortized at the date of acquisition in accordance with FASB Interpretation No. 4, "Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method" and is included in research and development costs.

The weighted-average useful life of developed technology, customer relationships and other intangible assets is six years, eight years and two to six years respectively.

As part of a retention package employees and executives of Brion were granted a cash retention bonus, stock awards, performance stock awards and the existing stock options of Brion were converted to ASML stock options (see Note 17).

In 2008 we completed the purchase price allocation of Brion. No adjustments were made to the initial allocation of the purchase price.

4. Market risk and derivatives

The Company is exposed to a variety of financial risks: market risk (including foreign currency exchange risk and interest rate risk), credit risk and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures. None of these transactions are entered into for trading or speculative purposes.

While the financial markets have shown an increased volatility, we continue to believe that market information is the most reliable and transparent means of measurement for our derivative instruments that are measured at fair value.

Foreign currency risk management

The Company uses the euro as its invoicing currency in order to limit the exposure to foreign currency movements. Exceptions may occur on a customer by customer basis. To the extent that invoicing is done in a currency other than the euro, the Company is exposed to foreign currency risk.

It is the Company's policy to hedge material transaction exposures, such as sales transactions, forecasted purchase transactions and accounts receivable/accounts payable. The Company hedges these exposures through the use of foreign exchange options and forward contracts. The use of a mix of foreign exchange options and forward contracts is aimed at reflecting the likelihood of the transactions occurring. In the fourth quarter of 2008, four sales transactions were postponed, resulting in ineffective hedges. During the 12 months ended December 31, 2008, EUR 18.0 million loss was recognized in net sales relating to ineffective hedges (2007: EUR 0.2 million gain was recognized in cost of sales relating to ineffective hedges). The effectiveness of all outstanding hedge contracts is monitored closely throughout the life of the hedges.

As of December 31, 2008 EUR 43.6 million loss (2007: EUR 3.5 million loss) of other comprehensive income, net of taxes, represents the total anticipated loss to be charged to net sales, and EUR 1.9 million gain (2007: EUR 3.1 million loss) is the total anticipated gain to be released to cost of sales over the next twelve months as the forecasted revenue and purchase transactions occur.

It is the Company's policy to hedge material remeasurement exposures. These net exposures from certain monetary assets and liabilities in non-functional currencies are hedged with forward contracts.

It is the Company's policy to manage material currency translation exposures resulting predominantly from ASML's U.S. dollar net investments by hedging these partly with forward contracts.

The related foreign currency translation amounts, net of taxes, included in cumulative translation adjustment for the years ended December 31, 2007 and 2008 were EUR 23.3 million gain and EUR 12.7 million gain, respectively.

Interest rate risk management

The Company has both assets and liabilities that bear interest, which expose the Company to fluctuations in the prevailing market rate of interest. The Company uses interest rate swaps to align the interest typical terms of interest bearing assets with the interest typical terms of interest bearing liabilities. The Company still retains residual financial statement exposure risk to the extent that the asset and liability positions do not fully offset. It is the Company's policy to enter into interest rate swaps to hedge this residual exposure. For this purpose the Company uses interest rate swaps to hedge changes in market value of fixed loan coupons payable on our Eurobond due to changes in market interest rates and to hedge the variability of future interest receipts as a result of changes in market interest rates on part of our cash and cash equivalents.

Financial instruments

The Company uses foreign exchange derivatives to manage its currency risk and interest rate swaps to manage its interest-rate risk. Most derivatives will mature in one year or less after the balance sheet date. The following table summarizes the notional amounts and estimated fair values of the Company's financial instruments:

As of December 31 (in thousands)	2007 Notional Amount EUR	Fair Value EUR	**2008 Notional Amount EUR**	**Fair Value EUR**
Currency forward contracts[1,2]	283,881	528	**896,642**	**(38,521)**
Currency options[2]	90,000	4,887	—	—
Interest rate swaps[3]	1,029,900	16,553	**641,500**	**63,172**

(Source: Bloomberg Finance LP)

1 Mainly includes forward contracts on U.S. dollar and Japanese yen.

2 Net amount of forward and option contracts assigned as a hedge to sales and purchase transactions, to monetary assets and liabilities and to net investments in foreign operations.

3 The 2007 notional amount of the interest rate swaps mainly consists of EUR 600 million relating to a Eurobond and of EUR 380 million relating to cash and cash equivalents. The 2008 notional amount of the interest rate swaps mainly consists of EUR 600 million relating to a Eurobond. The fair value of interest rate swaps includes accrued interest and mainly consists of the fair value of interest rate swaps relating to a EUR 600 million Eurobond.

The fair value of currency forward contracts (used for hedging purposes) is the estimated amount that a bank would receive or pay to terminate the forward contracts at the reporting date, taking into account interest rates and exchange rates.

The fair value of currency options (used for hedging purposes) is the estimated amount that a bank would receive or pay to terminate the option agreements at the reporting date, taking into account interest rates, exchange rates and volatility.

The fair value of interest rate swaps (used for hedging purposes) is the estimated amount that a bank would receive or pay to terminate the swap agreements at the reporting date, taking into account current interest rates.

Credit risk management

Financial instruments that potentially subject ASML to significant concentrations of credit risk consist principally of cash and cash equivalents, accounts receivable and derivative financial instruments used in hedging activities.

Cash and cash equivalents and derivative instruments contain an element of risk of the counterparties being unable to meet their obligations. This financial credit risk is monitored and minimized per type of financial instrument by limiting ASML's counterparties to a sufficient number of major financial institutions. Also, in response to the increased volatility of the financial markets, a material part of the cash and cash equivalents has been invested in government related securities. ASML does not expect the counterparties to default given their high credit quality.

ASML's customers consist of integrated circuit manufacturers located throughout the world. ASML performs ongoing credit evaluations of its customers' financial condition and ASML maintains an allowance for potentially uncollectable accounts receivable. ASML regularly reviews the allowance by considering factors such as historical payment experience, credit quality, age of the accounts receivable balances, and current economic conditions that may affect a customer's ability to pay. In response to the increased volatility of the financial markets, ASML has taken additional measures to mitigate credit risk when considered appropriate by means of e.g. letters of credit, down payments and retention of ownership. Retention enables ASML to recover the systems in the event a customer defaults on payment.

Capital risk management

Our general strategy is to seek to maintain our strategic target level of cash and cash equivalents between EUR 1.0 and 1.5 billion. The Company regularly reviews the efficiency of its capital structure. To the extent that our cash and cash equivalents exceeds this target and there are no investment opportunities that we wish to pursue, we will consider returning excess cash to our shareholders, including through share buybacks, dividends and capital repayment. However, implementation of additional share buy back programs will depend on the recovery of the industry and economy.

5. Cash and cash equivalents

Cash and cash equivalents at December 31, 2008 include short-term deposits of EUR 833 million (2007: EUR 1,201 million), investments in Money Market Funds of EUR 201 million (2007: EUR 0.0 million) and interest-bearing bank accounts of EUR 75 million (2007: EUR 71 million).

Cash and cash equivalents have insignificant interest rate risk and remaining maturities of three months or less at the date of acquisition. No further restrictions on usage of cash and cash equivalents exist. The carrying amount of these assets approximates their fair value.

6. Accounts receivable

Accounts receivable consist of the following:

As of December 31 (in thousands)	2007 EUR	2008 EUR
Accounts receivable, gross	639,360	**464,703**
Allowance for doubtful debts	(1,385)	**(1,430)**
Accounts receivable, net	637,975	**463,273**

The carrying amount of the accounts receivable approximates the fair value. The maximum exposure to credit risk at December 31, 2008 is the fair value of the accounts receivable mentioned above. ASML has taken additional measures to mitigate credit risk when considered appropriate by means of e.g. letters of credit, down payments and retention of ownership, which is intended to enable ASML to recover the systems in the event a customer defaults on payment.

Movements of the allowance for doubtful debts are as follows:

(in thousands)	2007 EUR	2008 EUR
Balance at beginning of year	(2,388)	**(1,385)**
Utilization of the provision	825	**143**
(Addition) / release for the year[1]	178	**(188)**
Balance at end of year	(1,385)	**(1,430)**

1 (Addition) / release for the year is recorded in cost of sales.

On January 23, 2009, Qimonda AG and Qimonda Dresden OHG (together "Qimonda"), a German memory chipmaker, filed for insolvency. Qimonda has amounts outstanding to ASML of approximately EUR 37 million in respect of two systems delivered, of which EUR 21 million is reflected in accounts receivable and EUR 16 million is reflected in finance receivables. ASML believes that the outstanding amounts receivable from Qimonda are collectible or the value of the receivables can be realized through the retention of title of the two systems. In case the trustee in bankruptcy will not honour the contracts with ASML, we will execute our right to retrieve these systems, in order to substantially cover the financial risk for ASML. The timing of such potential retrieval of the systems is uncertain.

7. Finance receivables

Finance receivables consist of the net investment in sales-type leases. The sales-type leases transfer ownership of the systems to the lessee by the end of the lease term. The average lease term is 2.5 years. The following table lists the components of the finance receivables as of December 31, 2008:

As of December 31 (in thousands)	2008 EUR
Finance receivables, gross	**40,866**
Unearned interest	**(3,611)**
Finance receivables, net	**37,255**
Current portion of finance receivables, gross	**6,781**
Current portion of unearned interest	**(556)**
Non-current portion of finance receivables, net	**31,030**

On January 23, 2009 Qimonda AG and Qimonda Dresden OHG (together “Qimonda”), a German memory chipmaker, filed for insolvency. See note 6 for more information.

At December 31, 2008, the finance receivables due for payment in each of the next five years and thereafter are as follows:

(in thousands)	EUR
2009	6,781
2010	29,640
2011	4,445
2012	—
2013	—
Thereafter	—
Total	**40,866**

8. Inventories

Inventories consist of the following:

As of December 31	**2007**	**2008**
(in thousands)	EUR	**EUR**
Raw materials	139,868	**140,615**
Work-in-process	712,815	**655,505**
Finished products	378,572	**392,910**
Total inventories, gross	1,231,255	**1,189,030**
Allowance for obsolescence and/or lower market value	(129,045)	**(189,880)**
Total inventories, net	1,102,210	**999,150**

A summary of activity in the allowance for obsolescence is as follows:

	2007	**2008**
(in thousands)	EUR	**EUR**
Balance at beginning of year	(115,418)	**(129,045)**
Addition for the year[1]	(79,592)	**(139,628)**
Effect of exchange rates	4,259	**(17)**
Release of the provision	—	**2,113**
Utilization of the provision	61,706	**76,697**
Balance at end of year	(129,045)	**(189,880)**

1 Addition for the year is recorded in cost of sales.

The increased 2008 inventory obsolescence relates to certain non leading-edge systems which management no longer believes can be sold for two reasons, both relating to the global financial market crisis and economic downturn. The first reason relates to our customers’ decision to delay non leading-edge capacity additions which increases the risk that certain systems will become technologically obsolete. The second reason has to do with the expected plant closures by our high-tech customers to reduce certain non leading-edge capacity, which management believes will result in a high supply of used systems and downward pressure on sales prices.

9. Other assets

Other non-current assets consist of the following:

As of December 31	2007	2008
(in thousands)	EUR	**EUR**
Derivative instruments	20,930	**53,206**
Loan to Micronic	13,000	**13,000**
Compensation plan assets[1]	7,929	**7,103**
Prepaid expenses	6,233	**5,542**
Subordinated loan granted to lessor in respect of Veldhoven headquarters[2]	5,445	**5,445**
Other	6,454	**3,901**
Total other non-current assets	59,991	**88,197**

1 For further details on compensation plan refer to Note 17.
2 For further details on loan granted to lessor in respect of Veldhoven headquarters refer to Note 16.

Derivative instruments consist of the non-current part of the fair value of interest-rate swaps which include accrued interest.

The loan to Micronic relates to a license agreement between Micronic Laser Systems AB and ASML. The loan is repayable at demand with a notice period of 90 days.

Other current assets consist of the following:

As of December 31	2007	2008
(in thousands)	EUR	**EUR**
Advance payments to Zeiss	100,112	**103,798**
Prepaid expenses	63,211	**57,471**
Derivative instruments	9,411	**39,240**
VAT	34,459	**18,693**
Other	27,336	**16,875**
Total other current assets	234,529	**236,077**

Zeiss is our sole supplier of lenses and, from time to time, receives non-interest advance payments from us that assist in financing Zeiss' work in process and thereby secure lens deliveries to us. Amounts owed under these advance payments are repaid through lens deliveries. We do not maintain an allowance for doubtful debts against these advances but based on periodical monitoring of Zeiss' financial condition confirm that no loss allowance is necessary.

Prepaid expenses include a tax prepayment on intercompany profit, not realized by the group of EUR 26.2 million in 2008 (2007: EUR 28.8 million).

Derivative instruments consist of currency forward contracts and the current part of interest rate swaps.

10. Goodwill

Changes in goodwill are summarized as follows:

	2007	2008
(in thousands)	EUR	**EUR**
Cost		
Balance, January 1	—	**128,271**
Acquisition subsidiary	143,340	—
Effect of exchange rates	(15,069)	**3,182**
Balance, December 31	128,271	**131,453**
Carrying amount, December 31	128,271	**131,453**

The goodwill relates to the acquisition of Brion in March 2007.

11. Other intangible assets

(in thousands)	Intellectual property EUR	Developed Technology EUR	Customer relationships EUR	In process R&D EUR	Other EUR	Total EUR
Cost						
Balance, January 1, 2007	47,215	—	—	—	—	**47,215**
Acquisition subsidiary	—	26,708	9,010	23,148	2,393	**61,259**
Effect of exchange rates	—	(2,807)	(947)	—	(252)	**(4,006)**
Balance, December 31, 2007	47,215	23,901	8,063	23,148	2,141	**104,468**
Additions	**35**	—	—	—	—	**35**
Effect of exchange rates	—	**593**	**200**	—	**54**	**847**
Balance, December 31, 2008	**47,250**	**24,494**	**8,263**	**23,148**	**2,195**	**105,350**
Accumulated amortization and impairment						
Balance, January 1, 2007	29,139	—	—	—	—	**29,139**
Amortization	8,069	3,551	898	23,148	775	**36,441**
Impairment charges	589	444	—	—	—	**1,033**
Effect of exchange rates	—	(230)	(59)	—	(51)	**(340)**
Balance, December 31, 2007	37,797	3,765	839	23,148	724	**66,273**
Amortization	**5,780**	**3,840**	**1,005**	—	**867**	**11,492**
Impairment charges	—	**552**	—	—	—	**552**
Effect of exchange rates	—	**249**	**50**	—	**42**	**341**
Balance, December 31, 2008	**43,577**	**8,406**	**1,894**	**23,148**	**1,633**	**78,658**
Carrying amount						
December 31, 2007	9,418	20,136	7,224	—	1,417	38,195
December 31, 2008	**3,673**	**16,088**	**6,369**	—	**562**	**26,692**

In connection with a settlement of worldwide patent litigation between Nikon, ASML and Zeiss, on December 10, 2004, ASML entered into a patent cross-license agreement with Nikon, effective November 12, 2004, pursuant to which (i) ASML granted Nikon a non-exclusive license to manufacture and sell lithography equipment under patents owned or otherwise sublicensable by ASML and (ii) Nikon granted ASML a non-exclusive license to manufacture and sell lithography equipment (other than optical components) under patents owned or otherwise sublicensable by Nikon.

The licenses under the agreement are perpetual for patents having an effective application date before 2003 ("Class A Patents") and all other patents ("Class B Patents") will terminate at the end of 2009. At any time until June 30, 2015, either party has a limited right to designate up to 5 Class B patents (or patents related to lithography issued from 2010 to 2015) of the other party as Class A Patents. Any patents acquired after the date of the agreement are deemed Class B Patents.

In connection with the settlement, ASML made an initial payment to Nikon of US$60 million in 2004 and further payments of US$9 million in 2005, 2006 and 2007 (in total EUR 70 million).

Based upon a royalty valuation method (using a royalty structure which was determined through an analysis of royalty agreements that involve transfers of technologies broadly comparable to ASML's technology), EUR 21 million of the EUR 70 million of charges relating to the settlement was determined to pertain to future sales and was capitalized under intangible assets. The intangible asset is amortized over a period of five years under cost of sales, which equals the remaining estimated useful life of Class A Patents and the contractual life of Class B Patents. The remaining EUR 49 million was determined to relate to past conduct, i.e., components of products that had been affected by the patents covered by the patent cross-license agreement and that had been installed prior to effectiveness of the cross-license agreement. This amount was expensed as research and development costs in ASML's consolidated statements of operations for the year ended December 31, 2004.

Developed technology, customer relationships, in-process research and development and other intangible assets were obtained from the acquisition of Brion.

During 2008, we recorded amortization charges of EUR 11.5 million (2007: EUR 36.4 million) of which we recorded EUR 11.5 million in cost of sales (2007: EUR 13.0 million) and EUR 0.0 million in research and development costs (2007: EUR 23.4 million).

Estimated amortization expenses relating to other intangible assets for the next five years are as follows:

(in thousands)	**EUR**
2009	8,565
2010	5,208
2011	5,001
2012	5,001
2013	1,697
Thereafter	1,220
Total	**26,692**

12. Property, plant and equipment

Property, plant and equipment consist of the following:

(in thousands)	**Buildings and constructions** EUR	**Machinery and equipment** EUR	**Leasehold improvements** EUR	**Furniture, fixtures and other equipment** EUR	**Total** **EUR**
Cost					
Balance, January 1, 2007	121,158	435,019	136,941	229,119	**922,237**
Additions	90,318	95,063	14,687	32,139	**232,207**
Acquisition subsidiary	—	2,077	144	308	**2,529**
Disposals	(22,037)	(51,104)	(2,059)	(2,028)	**(77,228)**
Effect of exchange rates	(6,280)	(14,125)	(596)	(2,436)	**(23,437)**
Balance, December 31, 2007	183,159	466,930	149,117	257,102	**1,056,308**
Additions	**172,002**	**107,093**	**12,319**	**30,625**	**322,039**
Disposals	**(382)**	**(91,024)**	**(8,037)**	—	**(99,443)**
Effect of exchange rates	**752**	**399**	**425**	**570**	**2,146**
Balance, December 31, 2008	**355,531**	**483,398**	**153,824**	**288,297**	**1,281,050**
Accumulated depreciation and impairment					
Balance, January 1, 2007	61,933	337,832	81,927	169,655	**651,347**
Depreciation	3,338	41,229	12,832	31,141	**88,540**
Impairment charges	1,537	5,313	229	910	**7,989**
Disposals	(16,985)	(36,861)	(1,735)	(1,261)	**(56,842)**
Effect of exchange rates	(2,774)	(10,524)	(414)	(1,908)	**(15,620)**
Balance, December 31, 2007	47,049	336,989	92,839	198,537	**675,414**
Depreciation	**6,604**	**54,081**	**14,961**	**31,918**	**107,564**
Impairment charges	**266**	**22,324**	**423**	**1,544**	**24,557**
Disposals	**(558)**	**(59,671)**	**(7,201)**	—	**(67,430)**
Effect of exchange rates	**548**	**(255)**	**80**	**(68)**	**305**
Balance, December 31, 2008	**53,909**	**353,468**	**101,102**	**231,931**	**740,410**
Carrying amount[1]					
December 31, 2007	136,110	129,941	56,278	58,565	380,894
December 31, 2008	**301,622**	**129,930**	**52,722**	**56,366**	**540,640**

1 Includes as of December 31, 2008 and 2007 assets under construction, respectively, for buildings and constructions of EUR 122.1 million, and EUR 79.6 million, machinery and equipment of EUR 4.6 million and EUR 6.6 million, leasehold improvements of EUR 2.4 million and EUR 1.2 million and furniture, fixtures and other equipment of EUR 8.6 million and EUR 16.4 million.

Additions to buildings and constructions relate to the construction of new facilities in Veldhoven and Taiwan.

The majority of the Company's disposals in 2007 and 2008 relate to machinery and equipment, primarily consisting of prototypes, demonstration and training systems. These systems are similar to those that ASML sells in its ordinary course of business. The systems are capitalized under property, plant and equipment because they are held for own use and, at the time they are placed in service, expected to be used for a period longer than one year. These systems are recorded at cost and depreciated over their useful life. From the time that these assets are no longer held for own use but intended for sale, they are reclassified from property, plant and equipment to inventory at the lower of their carrying value or fair market value. When sold, the proceeds and cost of these systems are recorded as net sales and cost of sales, respectively, identical to the treatment of other sales transactions. The cost of sales for these systems includes the inventory value and the additional costs of refurbishing (materials and labor).

During 2008, we recorded impairment charges of EUR 24.6 million (2007: EUR 8.0 million) of which we recorded EUR 20.8 million (2007: EUR 7.6 million) in cost of sales, EUR 2.2 million (2007: EUR 0.2 million) in research and development costs and EUR 1.6 million (2007: EUR 0.2 million) in selling, general and administrative costs.

The impairment charges recorded in 2008 mainly related to machinery and equipment (EUR 22.3 million). The Company impaired certain non leading-edge machinery and equipment that are ceased to be used during the expected economic life, and which management no longer believes can be sold for two reasons, both relating to the global financial market crisis and economic downturn. The first reason relates to our customers' decision to delay non leading-edge capacity additions which increases the high risk that certain systems will become technologically obsolete. The second reason has to do with the expected plant closures by our high-tech customers to reduce certain non leading-edge capacity, which management believes will result in a high supply of used systems and a downward pressure on sales prices. The impairment charges were determined based on the difference between the assets' estimated fair value (being EUR 5.4 million) and their carrying amount. In determining the fair value of an asset, the Company makes estimates about future cash flows. These estimates are based on the financial plan updated with the latest available projection of semiconductor market conditions and our sales and cost expectations which are consistent with the plans and estimates that it uses to manage its business.

The impairment charges recorded in 2007 mainly related to buildings and constructions (EUR 1.5 million) and machinery and equipment (EUR 5.3 million). The impairment charges with respect to buildings and constructions mainly related to a building in Veldhoven that has been abandoned in 2007 and has been demolished in 2008 to create space for the EUV clean room and central utilities which are currently under construction. The impairment was determined based on the difference between the building's estimated fair value (being EUR 0.0 million) and its carrying amount. The impairment charges with respect to machinery and equipment mainly relate to development, production and field service tooling that no longer met current technology requirements as a result of new technology introductions. The impairment charges were determined based on the difference between the assets' estimated fair value (being EUR 0.0 million) and their carrying amount.

During 2008, we recorded depreciation charges of EUR 107.6 million (2007: EUR 88.5 million) of which we recorded EUR 50.3 million (2007: EUR 48.6 million) in cost of sales, EUR 25.5 million (2007 EUR 21.5 million) in research and development costs and EUR 31.8 million (2007: EUR 18.4 million) in selling, general and administrative costs.

13. Accrued liabilities and other liabilities

Accrued liabilities and other liabilities consist of the following:

As of December 31 (in thousands)	2007[1] EUR	**2008 EUR**
Deferred revenue	355,218	**262,209**
Costs to be paid	189,925	**190,225**
Advances from customers	163,759	**169,250**
Personnel related items	152,444	**130,651**
Derivative instruments	11,281	**67,794**
Standard warranty	73,198	**35,225**
Other	1,233	**4,472**
Total accrued liabilities and other	947,058	**859,826**
Less: long-term portion of accrued liabilities and other	7,936	**70,038**
Short-term portion of accrued liabilities and other	939,122	**789,788**

1 As of January 1, 2008 ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until December 31, 2007 ASML accounted for award credits using the cost accrual method. The comparative figures for the years 2007 and 2006 have been adjusted to reflect this change in accounting policy. See note 1 to the consolidated financial statements.

Deferred revenue mainly consists of prepaid service contracts, prepaid extended optic warranty contracts and credit awards regarding free or discounted products or services.

Advances from customers consist of down payments made by customers prior to shipment for systems included in our current product portfolio or systems currently under development.

Personnel related items mainly consist of accrued management bonuses, sales commissions and profit sharing; accrued vacation days and vacation allowance; accrued wage tax, social securities and accrued pension premiums.

Derivative instruments mainly consist of the fair value of interest-rate swaps and currency forward and option contracts on U.S. dollar and Japanese Yen.

We provide standard warranty coverage on our systems for twelve months and an additional lens warranty generally for four years, providing labor and parts necessary to repair systems during the warranty period. The estimated warranty costs are accounted for by accruing these costs for each system upon recognition of the system sale. The estimated warranty costs are based on historical product performance, expected results from improvement programs and field expenses. Based upon historical service records, the charge of average service hours and parts per system is calculated to determine the estimated warranty charge. These estimates are updated periodically. Changes in product warranty liabilities for the years 2007 and 2008 are as follows:

(in thousands)	2007 EUR	**2008** **EUR**
Balance, January 1	75,297	**73,198**
Additions of the year	47,258	**30,322**
Utilization of the provision	(28,302)	**(35,233)**
Release of the provision[1]	(17,988)	**(33,409)**
Effect of exchange rates	(3,067)	**347**
Balance, December 31	73,198	**35,225**

1 The release was due to a change in accounting estimate based on lower than expected historical warranty expenses as a result of an improved learning curve concerning our systems. The release has been included in cost of sales.

14. Provisions

Provisions consist of the following:

(in thousands)	**Employee contract termination benefits** EUR	**Lease contract termination costs** EUR	**Total** **EUR**
Balance at January 1, 2008	—	—	**—**
Addition of the year	2,428	19,969	**22,397**
Utilization of the provision	—	—	**—**
Effect of exchange rates	(163)	(2,061)	**(2,224)**
Balance at December 31, 2008	**2,265**	**17,908**	**20,173**
Less: short-term portion of provisions	2,265	2,413	**4,678**
Long-term portion of provisions	—	**15,495**	**15,495**

In December 2008, ASML announced a restructuring which will result in the discontinuation of its training center in the United States, downsizing of the United States headquarters and closure of several other locations, reflecting the continuous migration of the semiconductor manufacturing activities to Asia which has been accelerated by the current global financial market crisis and economic downturn. The total restructuring costs are EUR 22.4 million and consist of employee contract termination benefits and contract termination costs. These costs have been fully recognized in 2008.

Provision for employee contract termination benefits relates mainly to the reduction of approximately 105 jobs and comprises only personnel costs. The provision for employee contract termination benefits is expected to be substantially utilized in the first half of 2009.

Provision for lease contract termination costs relates to an operating lease contract for a building for which no economic benefits are expected. The provision for lease contract termination costs is expected to be utilized by 2017.

The annually expected cost savings of the restructuring are EUR 9.6 million.

The restructuring costs are recognized as follows in the consolidated statements of operations:

(in thousands)	Restructuring costs EUR
Cost of sales	**21,492**
Selling, general and administrative costs	**905**
Total	**22,397**

15. Long-term debt

As of December 31, 2008 long-term debt consists of the Company's outstanding Eurobond of EUR 600 million.

Eurobond

The following table summarizes the carrying amount of the Company's outstanding Eurobond, including fair value of interest-rate swaps used to hedge the change in the fair value of the Eurobond:

As of December 31 (in thousands)	2007 EUR	2008 EUR
5.75 percent Eurobond		
Principal amount	600,000	**600,000**
Fair value interest-rate swaps[1]	(436)	**47,050**
Total	599,564	**647,050**

1 The fair value of the interest-rate swaps excludes accrued interest.

In June 2007, we completed an offering of EUR 600 million principal amount of our 5.75 percent Notes due 2017, with interest payable annually on June 13 of each year, commencing on June 13, 2008. The notes are redeemable at the option of ASML, in whole or in part, at any time by paying a make whole premium, and unless previously redeemed, will be redeemed at 100 percent of their principal amount on June 13, 2017.

The following table summarizes the estimated fair value of our Eurobond:

		2007			2008	
As of December 31 (in thousands)	**Principal Amount EUR**	**Carrying Amount EUR**	**Fair Value EUR**	**Principal Amount EUR**	**Carrying Amount EUR**	**Fair Value EUR**
5.75 percent Eurobond	600,000	599,564	532,260	**600,000**	**647,050**	**345,585**

(Source: Bloomberg Finance LP)

The fair value of the Company's Eurobond is estimated based on the quoted market prices as of December 31, 2008. The fair value of the Eurobond is lower than the principal amount as a result of an increased implied credit spread.

Lines of credit

As of December 31, 2008, the Company has an available credit facility for a total amount of EUR 500 million (2007: EUR 500 million), which will expire in May 2012.

No amounts were outstanding under this credit facility at the end of 2008 and 2007. The credit facility contains a certain restrictive covenant that the Company maintains a minimum financial condition ratio, calculated in accordance with a contractually agreed

formula. ASML was in compliance with this covenant at December 31, 2008 and 2007. ASML does not currently anticipate any difficulty in continuing to meet this covenant requirement.

Outstanding amounts under this credit facility will bear interest at the European Interbank Offered Rate (EURIBOR) or the London Interbank Offered Rate (LIBOR) plus a margin that is dependent on the Company's liquidity position.

16. Commitments, contingencies and guarantees

The Company has various contractual obligations, some of which are required to be recorded as liabilities in the Company's consolidated financial statements, including long- and short-term debt. Others, namely operating lease commitments, purchase obligations and guarantees, are generally not required to be recognized as liabilities on the Company's balance sheet but are required to be disclosed.

Lease Commitments and Variable Interests

The Company leases equipment and buildings under various operating leases. Operating leases are charged to expense on a straight-line basis. See the Tabular Disclosure of Contractual Obligations below.

In December 2003, the FASB issued FIN 46(R), "Consolidation of Variable Interest Entities". Under FIN 46(R), an enterprise must consolidate a variable interest entity if that enterprise has a variable interest (or a combination of variable interests) that will absorb a majority of the entity's expected losses if they occur, receive a majority of the entity's expected residual returns if they occur, or both.

In 2003, ASML moved to its current Veldhoven headquarters. The Company is leasing these headquarters for a period of 15 years from an entity (the "lessor") that was incorporated by a syndicate of three banks ("shareholders") solely for the purpose of leasing this building. The lessor's shareholders equity amounts to EUR 1.9 million. The shareholders each granted a loan of EUR 11.6 million and a fourth bank granted a loan of EUR 12.3 million. ASML provided the lessor with a subordinated loan of EUR 5.4 million and has a purchase option that is exercisable either at the end of the lease in 2018, at a pre-determined price of EUR 24.5 million, or during the lease at the book value of the assets. The total assets of the lessor entity amounted to approximately EUR 54 million at inception of the lease.

ASML believes that it holds a variable interest in this entity and that the entity is a variable interest entity ("VIE") because it is subject to consolidation in accordance with the provisions of paragraph 5 of FIN 46(R). The total equity investment at risk is approximately 3.6 percent of the lessor's total assets and is not considered and cannot be demonstrated, qualitatively or quantitatively, to be sufficient to permit the lessor to finance its activities without additional subordinated financial support provided by any parties, including the shareholders.

ASML determined that it is not appropriate to consolidate the VIE as it is not the primary beneficiary. To make this determination, the expected losses and expected residual returns of the lessor were allocated to each variable interest holder based on their contractual right to absorb expected losses and residual returns. The analysis of expected losses and expected residual returns involved determining the expected negative and positive variability in the fair value of the lessor's net assets exclusive of variable interests through various cash-flow scenarios based upon the expected market value of the lessor's net assets. Based on this analysis, ASML determined that other variable interest holders will absorb the majority of the lessor's expected losses, and as a result, ASML is not the primary beneficiary.

ASML's maximum exposure to the lessor's expected losses is estimated to be approximately EUR 5.4 million.

Purchase Obligations

The Company enters into purchase commitments with vendors in the ordinary course of business to ensure a smooth and continuous supply chain for key components. Purchase obligations include medium to long-term purchase agreements. These contracts differ and may include certain restrictive clauses. Any identified losses that result from purchase commitments that are forfeited are provided for in the Company's financial statements. As of December 31, 2008, the Company had purchase commitments for a total amount of approximately EUR 978 million (2007: EUR 1,405 million). The current commitment level has decreased compared to 2007, which is mainly due to lower market demand. In our negotiations with suppliers we continuously seek to align our purchase commitments with our business objectives. We are able to delay the main part of our purchase commitments for one or two years. See the Tabular Disclosure of Contractual Obligations below.

Tabular Disclosure of Contractual Obligations

The Company's contractual obligations with respect to long-term debt obligations, operating lease obligations, purchase obligations and other liabilities as of December 31, 2008 can be summarized as follows:

Payments due by period (in thousands)	Total EUR	Less than 1 year EUR	1-3 years EUR	3-5 years EUR	After 5 years EUR
Long Term Debt Obligations, including interest expenses[1]	**957,550**	34,500	69,000	69,000	785,050
Operating Lease Obligations	**152,454**	36,865	50,982	31,553	33,054
Purchase Obligations	**978,250**	919,586	34,532	7,341	16,791
Unrecognized tax benefits	**124,202**	5,247	34,900	14,324	69,731
Other Liabilities[2]	**1,131**	1,131	—	—	—
Total Contractual Obligations	**2,213,587**	997,329	189,414	122,218	904,626

1 We refer to Note 15 to the consolidated financial statements for the amounts excluding interest expense.
2 Other liabilities relate to a finance lease agreement regarding software.

Long term debt obligations relate to interest payments and the redemption of the principal amount of the Eurobond. Reference is made to note 15 to the consolidated financial statements.

Operating lease obligations include leases of equipment and facilities. Lease payments recognized as an expense were EUR 42 million, EUR 46 million and EUR 43 million for the years ended December 31, 2006, 2007 and 2008 respectively.

Several operating leases for our buildings contain purchase options, exercisable at the option of the Company at the end of the lease, and in some cases, during the term of the lease. The amounts to be paid if ASML should exercise these purchase options at the end of the lease as of December 31, 2008 can be summarized as follows:

Purchase options due by period (in thousands)	Total EUR	Less than 1 year EUR	1-3 years EUR	3-5 years EUR	After 5 years EUR
Purchase options	**58,004**	2,269	—	8,250	47,485

Purchase obligations include purchase commitments with vendors in the ordinary course of business. We are able to delay the main part of our purchase commitments for one or two years.

Unrecognized tax benefits relate to a liability for uncertain tax positions. Reference is made to note 19 to the consolidated financial statements.

Other Off-Balance Sheet Arrangements

The Company has certain additional non material commitments and contingencies that are not recorded on its balance sheet but may result in future cash requirements.

From time to time we provide guarantees to third parties in connection with transactions entered into by our Netherlands subsidiaries in the ordinary course of business.

Qimonda

On January 23, 2009, Qimonda AG and Qimonda Dresden OHG (together "Qimonda"), a German memory chipmaker, filed for insolvency. Qimonda has amounts outstanding to ASML of approximately EUR 37 million in respect of two systems delivered, of which EUR 21 million is reflected in accounts receivable and EUR 16 million is reflected in finance receivables. ASML believes that the outstanding amounts receivable from Qimonda are collectible or the value of the receivables can be realized through the retention of title of the two systems. In case the trustee in bankruptcy will not honour the contracts with ASML, we will execute our right to retrieve these systems, in order to substantially cover the financial risk for ASML. The timing of such potential retrieval of the systems is uncertain.

17. Employee benefits

In February 1997, SVG (Company that merged with ASML in May 2001) adopted a non-qualified deferred compensation plan that allowed a select group of management and highly compensated employees and directors to defer a portion of their salary, bonus and directors fees. The plan allowed SVG to credit additional amounts to participants' account balances, depending on the amount of the employee's contribution, up to a maximum of 5.0 percent of an employee's annual salary and bonus. In addition, interest is credited to the participants' account balances at 120 percent of the average Moody's corporate bond rate. For calendar years 2006, 2007 and 2008, participants' accounts were credited at 6.92 percent, 7.16 percent and 7.34 percent respectively. SVG's contributions and related interest became 100 percent vested in May 2001 with the merger of SVG and ASML. During fiscal years 2006, 2007 and 2008, the expense incurred under this plan was EUR 0.2 million, EUR 0.1 million and 0.2 million, respectively. As of December 31, 2007 and 2008 the Company's liability under the deferred compensation plan was EUR 2 million and EUR 2 million respectively.

In July 2002, ASML adopted a non-qualified deferred compensation plan for its United States employees that allows a select group of management or highly compensated employees to defer a portion of their salary, bonus, and commissions. The plan allows ASML to credit additional amounts to the participants' account balances. The participants divide their funds among the investments available in the plan. Participants elect to receive their funds in future periods after the earlier of their employment termination or their withdrawal election, at least three years after deferral. There were minor plan expenses in 2006, 2007 and 2008. On December 31, 2007 and 2008, the Company's liability under the deferred compensation plan was EUR 6 million and EUR 5 million, respectively.

Pension plans

ASML maintains various pension plans covering substantially all of its employees. The Company's approximately 3,600 employees in the Netherlands participate in a multi-employer union plan ("Bedrijfstakpensioenfonds Metalektro") determined in accordance with the collective bargaining agreements effective for the industry in which ASML operates. This multi-employer plan spans approximately 1,250 companies and 156,000 contributing members. The plan monitors its risks on a global basis, not by company or employee, and is subject to regulation by Netherlands governmental authorities. By law (the Netherlands Pension Act), a multi-employer union plan must be monitored against specific criteria, including the coverage ratio of the plan's assets to its obligations. This coverage ratio must exceed 100 percent for the total plan. Every company participating in a Netherlands multi-employer union plan contributes a premium calculated as a percentage of its total pensionable salaries, with each company subject to the same percentage contribution rate. The pension rights of each employee are based upon the employee's average salary during employment.

ASML's net periodic pension cost for this multi-employer plan for any fiscal period is the amount of the required contribution for that period. A contingent liability may arise from, for example, possible actuarial losses relating to other participating entities because each entity that participates in a multi-employer plan shares in the actuarial risks of every other participating entity or any responsibility under the terms of a plan to finance any shortfall in the plan if other entities cease to participate.

The current global financial market crisis and economic downturn and a significant decrease in interest rates have caused the coverage ratio of the multi-employer plan to fall to 91 percent as of November 30, 2008 (December 31, 2007: 135 percent), resulting in an increase in pension premiums. For 2009, the pension premium will increase by one percent to a maximum of 23 percent of the total pensionable salaries. The funding ratio is calculated by dividing the fund's capital by the total sum of pension liabilities and is based on actual market interest.

ASML also participates in several defined contribution pension plans, with ASML's expenses for these plans equaling the contributions made in the relevant fiscal period.

The Company's pension costs for all employees for the three years ended December 31, 2008 were:

Year ended December 31 (in thousands)	**2006** EUR	**2007** EUR	**2008** **EUR**
Pension plan based on multi-employer union plan	21,407	26,485	**30,579**
Pension plans based on defined contribution	7,538	6,993	**8,466**
Total	28,945	33,478	**39,045**

Bonus plan

ASML has a performance-related bonus plan for senior management, who are not members of the Board of Management. Under this plan, the bonus amount is dependent on the actual performance on corporate, departmental and personal targets. The bonus for members of senior management can range between 0 percent and 40 percent, or 0 percent and 70 percent of their annual salaries, depending upon their seniority. The performance targets for 2008 are set per half year. The bonus of the first half year of 2008 has been paid in the third quarter of 2008 and the bonus of the second half year is accrued for in the consolidated balance sheets as of December 31, 2008 and is expected to be paid in the first quarter of 2009. The Company's bonus expenses for all participants under this plan were:

Year ended December 31 (in thousands)	**2006** EUR	**2007** EUR	**2008** **EUR**
Bonus expenses	8,202	8,934	**7,756**

ASML has a retention bonus plan for employees and executives of Brion including three retention bonuses. The first retention bonus was conditional on the first year of employment after the acquisition date and was paid in March 2008. The second retention bonus is conditional on the second year of employment after the acquisition date and is payable in March 2009. The third retention bonus is conditional on the third year of employment after the acquisition date and is payable in March 2010. The Company's bonus expenses for all participants under this plan were:

Year ended December 31 (in thousands)	**2007** EUR	**2008** **EUR**
Bonus expenses	5,335	**5,031**

Profit-sharing plan

ASML has a profit-sharing plan covering all employees who are not members of the Board of Management or senior management. Under the plan, eligible employees receive an annual profit-sharing bonus, based on a percentage of net income relative to sales ranging from 0 to 20 percent of annual salary. The profit-sharing percentage for the years 2006, 2007 and 2008 was 12 percent, 14 percent and 6 percent, respectively. This profit-sharing bonus is accrued for in the consolidated statements of operations for the year ended December 31, 2008 for an amount of EUR 18.1 million, expected to be paid in the first quarter of 2009.

Share-based payments

ASML has adopted various share-based payment plans for its employees, which are described below. The total gross amount of recognized expenses associated with share-based payments was EUR 9.7 million in 2006, EUR 16.5 million in 2007 and EUR 13.5 million in 2008.

Total compensation expenses related to non vested awards to be recognized in future periods amount to EUR 17.5 million as per December 31, 2008 (2007: EUR 26.2 million). The weighted average period over which these costs are expected to be recognized is calculated at 1.5 years (2007: 1.4 years).

Stock option transactions are summarized as follows:

	Number of shares	Weighted average exercise price per share (EUR)
Outstanding, January 1, 2006	25,791,301	23.09
Granted	1,185,863	17.81
Exercised	(1,964,268)	14.40
Expired/Forfeited	(1,589,546)	33.01
Outstanding, December 31, 2006	23,423,350	23.40
Granted	1,438,100	8.59
Exercised	(4,345,322)	15.29
Expired/Forfeited	(5,466,029)	32.76
Outstanding, December 31, 2007	15,050,099	20.89
Granted	990,526	14.38
Exercised	(1,119,426)	12.03
Expired/Forfeited	(2,993,452)	15.48
Outstanding, December 31, 2008	**11,927,747**	**22.53**
Exercisable, December 31, 2008	9,731,391	24.29
Exercisable, December 31, 2007	10,696,587	24.37
Exercisable, December 31, 2006	17,258,450	27.15

The estimated weighted average fair value of options granted during 2006, 2007 and 2008 was EUR 5.69, EUR 12.95 and EUR 6.56, respectively, on the date of grant.

The weighted average share price at the date of exercise for stock options was EUR 17.91 (2007: EUR 23.46).

Options outstanding Range of exercise prices (EUR)	Number outstanding December 31, 2008	Number Exercisable December 31, 2008	Weighted average remaining contractual life (years)	Weighted average exercise price of outstanding options (EUR)
0.15 - 7.94	752,711	497,992	0.60	1.76
8.17 - 12.62	5,407,605	4,809,819	6.11	11.40
12.75 - 19.13	1,704,589	660,721	7.22	17.19
19.45 - 29.18	471,912	171,929	8.77	24.04
29.65 - 44.48	21,000	21,000	3.07	36.89
45.02 - 67.53	3,569,930	3,569,930	3.07	46.02
Total	**11,927,747**	**9,731,391**	**5.50**	**22.53**

Details with respect to stock options and stock are set forth in the following table:

As of December 31 (in thousands, except for contractual term)	2006	2007	2008
Aggregate intrinsic value of stock options exercised (EUR)	12,162	33,273	**5,894**
Total fair value at vesting date of shares vested during the year (EUR)	362	127	**4,288**
Aggregate remaining contractual term of currently exercisable options (years)	2.21	3.72	**4.83**
Aggregate intrinsic value of exercisable stock options (EUR)	—	—	**—**
Aggregate intrinsic value of outstanding stock options (EUR)	—	—	**—**

Stock transactions are summarized as follows:

Share plan	Year	Conditionally outstanding stock at January 1, 2008	Number of conditionally stock granted	Stock price (EUR)	Forfeited/ expired	Vested	Conditionally outstanding stock at December 31, 2008	End of vesting period
Employee plan	2007	45,151	—	24.26	—	—	45,151	19-10-2010
Brion stock plan	2007	462,232	—	17.50	(86,806)	(154,077)	221,349	07-03-2010
Brion performance stock plan	2007	170,173	—	23.12	(47,938)	(40,745)	81,490	31-12-2010
New hire performance stock plan	2007	24,546	—	22.00	—	—	24,546	31-12-2010
Senior management plan	2007	—	74,073	17.80	(3,332)	—	70,741	19-10-2010
Employee plan	2008	—	35,761	14.87	—	—	35,761	18-07-2011
Brion performance stock plan	2008	—	200,032	12.95	—	—	200,032	31-12-2011
New hire performance stock plan	2008	—	39,408	14.83	—	—	39,408	31-12-2010
Total		**702,102**	**349,274**		**(138,076)**	**(194,822)**	**718,478**	

Stock option plans

The Company has adopted various stock option plans for its employees. Each year, the Board of Management determines, by category of ASML personnel, the total available number of stock options and maximum number of shares that can be granted in that year. The determination is subject to the approval of the Supervisory Board of the Company. Options granted under ASML's stock option plans have fixed exercise prices equal to the closing price of the Company's ordinary shares on Euronext Amsterdam on the applicable grant dates. Granted stock options generally vest over a three-year period with any unexercised stock options expiring ten years after the grant date.

The fair value of the stock options is determined using a Black-Scholes option valuation model. We changed our method of estimating expected volatility for all stock options granted after January 1, 2006 from the exclusive use of historical volatility to the exclusive use of implied volatility. The primary reason for this change is that historical volatility had showed a significant and consistent downward trend over the five years ended December 31, 2006, which we believe is the result of the semiconductor industry becoming more mature and less cyclical. Within this period, historical share price volatility decreased from 89 percent in 2002 to 28 percent in 2006. The implied volatility as applied by ASML in 2006 was approximately 30 percent, which is significantly lower than historical share price volatility of 55 percent over the five year period then ended, and was much closer to the actual volatility of ASML's share price over fiscal year 2006 of 28 percent. Consequently, we no longer believe that an average historical volatility over a period commensurate with the expected term of the employee stock options (4-5 years) is likely to be indicative of future stock price behavior. Instead, we believe that the exclusive use of implied volatility results in a more accurate estimate of the expected stock price volatility because it more appropriately reflects market expectations of future stock price volatility. Our stock options are actively traded on Euronext Amsterdam. For this purpose, we use implied volatility as calculated by Bloomberg, which is based on an average of traded stock options:

- with market prices reasonably close to the date of grant;
- that have exercise prices close to the exercise price of the employee stock options; and
- that have a remaining maturity of up to four years.

The Black-Scholes option valuation of the fair value of our stock options is based on the following assumptions:

As of December 31	2006	2007	2008
Weighted average share price (in EUR)	17.8	24.0	**12.5**
Volatility (in percentage)	30.0	29.0	**54.5**
Expected life (in years)	5.0	4.9	**4.9**
Risk free interest rate	3.8	4.4	**4.4**
Expected dividend yield (in EUR)	—	—	**1.15**
Forfeiture rate[1]	—	—	**—**

1 As of the three-years ended December 31, 2008 forfeitures are estimated to be nil.

When establishing the expected life assumption we annually take into account the contractual terms of the options as well as historical employee exercise behavior.

Stock Option Extension Plans and Financing

In 2002, employees were offered an extension of the option period for options granted in 2000. As a result the option period was extended until 2012. Employees who accepted the extension became subject to additional exercise periods in respect of their options. At the modification date, there was no intrinsic value of the modified award because the exercise price under each plan still exceeded ASML's stock price on the modification date. As a result, these stock option extensions did not result in recognition of any compensation expense in accordance with APB Opinion No. 25 and related interpretations.

Stock option plans that were issued before 2001 were constructed with a virtual financing arrangement in compliance with the applicable laws and after obtaining the necessary corporate approvals, whereby ASML loaned the tax value of the options granted to employees subject to the Netherlands tax-regime. The interest-free loans issued under this arrangement are repayable to ASML on the exercise date of the respective option, provided that the option is actually exercised. If the options expire unexercised, the loans are forgiven. ASML's Supervisory Board approved the Stock Option Plans 2000 at the time, including the loans, as these were part of the Stock Option Plan.

In 2006, we launched a stock option plan for Netherlands employees holding stock options granted in 2000 (option "A"), which expire in 2012. In this plan we granted options (option "B") which only become effective after option "A" expires unexercised in 2012. The virtual employee loan in conjunction with option "A" will then be transferred to option "B" and consequentially gets the status of a perpetual loan. In total 932 employees chose to join this plan. Under the plan we granted 1,515,643 stock options and recognized additional compensation expenses of EUR 0.8 million for the year ended December 31, 2006.

Policy for issuing shares upon exercise

Until 2006 we issued new shares to satisfy the option rights of option holders upon exercise. In 2007 both new shares as well as repurchased shares were used to satisfy the option rights upon exercise. In 2008 only repurchased shares were used to satisfy the option rights upon exercise.

Share-based payment plans

In 2007 ASML launched new share-based payment plans providing employees the choice between stock, stock options or a combination of both. The new share-based payment plans divide the employees in two categories, senior management excluding the Board of Management and other employees who are not part of the Board of Management or senior management. Each year, the Board of Management determines the total number of awards that can be granted in that year. The determination is subject to the approval of the Supervisory Board of the Company.

The fair value of the stock options is determined using a Black-Scholes option valuation model. For the assumptions on which the Black-Scholes option valuation model is used reference is made to the disclosure above under the caption "Stock Option Plans".

Senior management plan

The senior management plan consists of two parts, both including a half-year performance condition based on a targeted Return On Average Invested Capital ("ROAIC") and a three year service condition. ROAIC is determined by dividing the average income from operations less provision for income taxes by the average invested capital. The average invested capital is determined by total assets less cash and cash equivalents less current liabilities.

In October 2007 stock and stock options were awarded to senior management under the new share-based payment plan. In April 2008, the targeted first half-year ROAIC was approved by the Board of Management and communicated to senior management. At that time awards for the first part were granted to senior management. In mid-2008 at time of approval and communication of the second-half year ROAIC, awards for the second part were granted to senior management. Stock options granted under the senior management plan have fixed exercise prices equal to the closing price of the Company's ordinary shares on Euronext Amsterdam on the date the plan was communicated to senior management (announcement date). The fair value of stock is determined based on the closing price of the Company's ordinary shares on Euronext Amsterdam on the announcement date. The announcement date may differ from the grant date for reason of later approval and mutual understanding of the performance condition. Granted awards generally vest over a two to three-year period with any unexercised stock options expiring ten years after the announcement date.

Employee plan

The employee plan includes a three-year service condition. Stock options granted under the employee plan have fixed exercise prices equal to the closing price of the Company's ordinary shares on Euronext Amsterdam on the grant date. The fair value of stock is determined based on the closing price of the Company's ordinary shares on Euronext Amsterdam on the grant date. Granted awards generally vest over a three-year period with any unexercised stock options expiring ten years after the grant date.

Brion share-based payment plans
In March, 2007 ASML acquired Brion. As part of a retention package employees and executives of Brion have been granted stock awards, performance stock awards and the Brion stock options outstanding at the acquisition date have been converted to ASML stock options.

Brion stock plan
The Brion stock plan includes a three-year service condition. The fair value of the stock is determined based on the closing price of the Company's ordinary shares on the NASDAQ on the grant date. Granted awards generally vest over a three-year period.

Brion performance stock plan
The performance stock awards are conditional on the executive completing a three to four year requisite service period and on achievement of the performance conditions. The performance target is based on multiple metrics, each with its own weight. The fair value of the stock is determined based on the closing price of the Company's ordinary shares on the NASDAQ on the grant date.

Brion stock option plan
At the effective date of the acquisition the existing stock options of Brion have been converted to ASML stock options leaving the vesting terms and conditions unchanged. The fair value of the stock options was determined using a Black-Scholes option valuation model. The fair value of the stock options relating to past services is part of the total purchase consideration. The fair value of the stock options relating to future services will be part of future compensation expenses. Granted awards generally vest over a four-year period.

New hire performance stock plan
Some new hires are eligible to conditional performance stock awards, under the conditions set forth in the general terms and conditions. The maximum number of performance stock will be determined on the day of conditional grant and will be based upon the market fair value of an ASML share per that day. The ultimately awarded number of shares of performance stock will be determined on yearly targets over a three year period of achievement. These targets are financial parameters relating to ROAIC parameters of a benchmark group.

18. Legal contingencies
ASML is party to various legal proceedings generally incidental to its business. ASML also faces exposure from other actual or potential claims and legal proceedings. In addition, ASML customers may be subject to claims of infringement from third parties alleging that the ASML equipment used by those customers in the manufacture of semiconductor products, and/or the methods relating to use of the ASML equipment, infringes one or more patents issued to those third parties. If these claims were successful, ASML could be required to indemnify such customers for some or all of any losses incurred or damages assessed against them as a result of that infringement.

The Company accrues for legal costs related to litigation in its statement of operations at the time when the related legal services are actually provided to ASML.

Patent litigation with Nikon
Pursuant to agreements executed on December 10, 2004, ASML, Zeiss and Nikon agreed to settle all pending worldwide patent litigation between the companies. The settlement included an exchange of releases, a cross-license of patents related to lithography equipment used to manufacture semiconductor devices and payments to Nikon by ASML and Zeiss. In connection with the settlement, ASML and Zeiss made settlement payments to Nikon from 2004 to 2007.

Arbitration with Aviza Technology
On December 1, 2006, Aviza Technology ("Aviza") initiated arbitration proceedings against ASML Holding N.V., ASML U.S., Inc. and certain of ASML Holding N.V.'s affiliates (collectively, the "ASML parties"). Aviza's arbitration demand alleged that the ASML parties engaged in fraud and made negligent misrepresentations or omissions in connection with a 2002 License Agreement between ASML and IPS, Ltd. That agreement was assigned to Aviza in connection with the 2003 divestiture of ASML's Thermal Division.

On March 24, 2008, the arbitrator in the Aviza case ruled in ASML's favor holding that Aviza failed to establish a cause of action against ASML. On June 19, 2008, the arbitrator awarded ASML its legal fees and costs associated with the case.

Dividend withholding tax

In May and June 2006, ASML entered into forward purchase agreements with a broker acting as principal to effect share repurchases under its share buyback program. The aggregate number of shares bought back under these agreements through July 13, 2006 was 25,450,296.

The Netherlands tax authorities challenged ASML's fiscal interpretation of the forward purchase agreements and sought to recast the repurchase as a dividend payment to unidentifiable shareholders. Accordingly, the Netherlands tax authorities assessed ASML for dividend withholding tax such that an (additional) amount of approximately EUR 24 million would be payable by ASML. In June 2008, as a result of objections lodged by ASML, the matter was settled. ASML paid an insignificant (additional) amount in connection with the settlement.

19. Income taxes

The components of income before income taxes are as follows:

Year Ended December 31 (in thousands)	2006[1] EUR	2007[1] EUR	**2008** **EUR**
Domestic	647,227	461,682	**141,418**
Foreign	214,532	386,471	**168,226**
Total	861,759	848,153	**309,644**

1 As of January 1, 2008 ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until December 31, 2007 ASML accounted for award credits using the cost accrual method. The comparative figures for the years 2007 and 2006 have been adjusted to reflect this change in accounting policy. See note 1 to the consolidated financial statements.

In addition to the income tax benefit recognized in the consolidated statements of operations, current and deferred tax of EUR 18.2 million (gain) have been recognized in equity in the year 2008 related to stock option plans and derivative instruments.

The Netherlands domestic statutory tax rate amounted to 25.5 percent in 2008 and 2007. Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The reconciliation between the (provision for) benefit from income taxes shown in the consolidated statements of operations, based on the effective tax rate, and expense based on the domestic tax rate, is as follows:

Year Ended December 31 (in thousands)	2006[1] EUR	 %	2007[1,2] EUR	 %	**2008** **EUR**	 **%**
Income from operations before income taxes	861,759	100.0	848,153	100.0	**309,644**	**100.0**
Income tax expense based on domestic rate	255,081	29.6	216,279	25.5	**78,959**	**25.5**
Change in statutory tax rate	(2,987)	(0.4)	(6)	—	**—**	**0.0**
Different tax rates	(19,677)	(2.3)	(16,538)	(1.9)	**(26,764)**	**(8.6)**
Other credits and non-taxable items	10,794	1.3	(22,583)	(2.7)	**(64,921)**	**(21.0)**
Provision for (benefit from) income taxes shown in the consolidated statements of operations	243,211	28.2	177,152	20.9	**(12,726)**	**(4.1)**

1 As of January 1, 2008 ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until December 31, 2007 ASML accounted for award credits using the cost accrual method. The comparative figures for the years 2007 and 2006 have been adjusted to reflect this change in accounting policy. See note 1 to the consolidated financial statements.

2 In 2008, subsequent to the filing of the 2007 annual report on Form 20-F, ASML detected and made a correction for a prior period error with respect to a release of deferred tax liabilities of EUR 8.7 million. This release was incorrectly recognized in the 2007 consolidated statement of operations under (provision for) benefit from income taxes instead of in equity under other comprehensive income. The 2007 figures have been adjusted to reflect this correction. See Note 1 to the consolidated financial statements.

Income tax expense based on domestic rate reflects the tax expense that would have been applicable if all of our income were derived from our Netherlands operations.

The Netherlands statutory tax rate was reduced from 29.6 percent for 2006 to 25.5 percent for 2007 and following years. This led to a remeasurement of our deferred tax assets and liabilities, resulting in a one time tax benefit of EUR 3.0 million in 2006 since we had a net deferred tax liability position in the Netherlands tax jurisdiction in both years.

A portion of our results are realized in countries other than the Netherlands where different tax rates are applicable. Different tax rates mainly reflect the adjustment necessary to give effect to the differing tax rates applicable in these non-Netherlands jurisdictions.

Other credits and non-taxable items reflect the impact on statutory rates of permanent non-deductible and non- taxable items such as non-deductible taxes, non-deductible interest expense, and non-deductible meals and entertainment, as well as the impact of various tax credits on our provision for income taxes. In 2008, the decrease in income taxes is mainly related to three items on which we reached agreement with the Netherlands tax authorities. These items are the treatment of taxable income related to ASML's patent portfolio, the valuation of intellectual property rights acquired in the past against historical exchange rates, and the treatment of taxable income related to a temporarily depreciated investment in ASML's United States subsidiary, all of which had a favorable impact on the effective tax rate. As a result of these three items, ASML recognized exceptional tax income of approximately EUR 70 million in 2008.

The provision for income taxes consists of the following:

Year Ended December 31 (in thousands)	2006[1] EUR	2007[1,2] EUR	**2008** **EUR**
Current			
Domestic	190,844	96,751	**(45,165)**
Foreign	27,459	86,962	**16,502**
Deferred			
Domestic	(2,084)	(9,213)	**15,614**
Foreign	26,992	2,652	**323**
Total	243,211	177,152	**(12,726)**

1 As of January 1, 2008 ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until December 31, 2007 ASML accounted for award credits using the cost accrual method. The comparative figures for the years 2007 and 2006 have been adjusted to reflect this change in accounting policy. See note 1 to the consolidated financial statements.
2 In 2008, subsequent to the filing of the 2007 annual report on Form 20-F, ASML detected and made a correction for a prior period error with respect to a release of deferred tax liabilities of EUR 8.7 million. This release was incorrectly recognized in the 2007 consolidated statement of operations under (provision for) benefit from income taxes instead of in equity under other comprehensive income. The 2007 figures have been adjusted to reflect this correction. See Note 1 to the consolidated financial statements.

The deferred tax position and liability for unrecognized tax benefits recorded on the balance sheet are as follows:

As of December 31 (in thousands)	2007[1] EUR	**2008** **EUR**
Deferred tax position	84,308	**134,268**
Liability for unrecognized tax benefits	(110,346)	**(124,202)**
Total	(26,038)	**10,066**

1 As of January 1, 2008 ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until December 31, 2007 ASML accounted for award credits using the cost accrual method. The comparative figures for the years 2007 and 2006 have been adjusted to reflect this change in accounting policy. See note 1 to the consolidated financial statements.

The calculation of our liability for unrecognized tax benefits involves uncertainties in the application of complex tax laws. Our estimate for the potential outcome of any uncertain tax issue is highly judgmental. We believe that we have adequately provided for uncertain tax positions. However, settlement of these uncertain tax positions in a manner inconsistent with our expectations could have a material impact on our results of operations, financial condition and cash-flows.

On January 1, 2007 we adopted the provisions of FIN 48 "Accounting for Uncertainty in Income Taxes". Consistent with the provisions of FIN 48, as of December 31, 2008, ASML classified EUR 124.2 million of the liability for unrecognized tax benefits as non-current liabilities because payment of cash was not anticipated within one year of the balance sheet date. These non-current income tax liabilities are recorded in deferred and other tax liabilities in the consolidated balance sheets. The total liability for unrecognized tax benefits, if recognized, would have a favorable effect on the Company's effective tax rate.

Expected interest and penalties related to income tax liabilities have been accrued for and are included in the liability for unrecognized tax benefits and in the (provision for) benefit from income taxes. The balance of accrued interest and penalties recorded in the consolidated balance sheets of December 31, 2007 amounted to EUR 21.5 million and as of December 31, 2008 amounted to EUR 23.6 million; these amounts were also classified as non-current liabilities consistent with the provisions of FIN 48.

There were three main topics on which we reached agreement with the fiscal authorities in 2008 that have affected our effective tax rate. For these three main topics and their related tax positions the more-likely-than-not recognition threshold of FIN 48 was not met as of December 31, 2007.

In the course of 2008, we reached agreement with the Netherlands tax authorities on determination of the tax benefits resulting from application of the so-called “Royalty Box”, a Netherlands tax measure intended to stimulate innovation. The Royalty Box mechanism partly exempts income attributable to research efforts and protected by patents from taxation, resulting in taxation of so called patent income at an effective corporate income tax rate of 10.0 percent instead of 25.5 percent. This agreement covered the Royalty Box for the years 2007, 2008 and the years thereafter.

We also reached agreement with the Netherlands tax authorities on the valuation of intellectual property rights acquired from the United States against a fixed historical U.S. dollar exchange rate.

Finally, we reached agreement with the Netherlands tax authorities on the tax base of the temporarily depreciated investment in ASML’s United States subsidiary. This depreciated amount has to be added back to taxable income in the period 2006-2010 in five equal installments.

The benefit of the Royalty Box for both 2007 and 2008, the benefit of the recognized deferred tax asset for intellectual property rights and the benefit of the temporarily depreciated investment have all been recorded in the (provision for) benefit from income taxes for 2008. As a result, ASML recognized exceptional tax income of approximately EUR 70 million.

A reconciliation of the beginning and ending balance of the liability for unrecognized tax benefits is as follows:

(In millions)	2007 EUR	**2008** **EUR**
Balance, January 1	138.3	**110.3**
Gross increases – tax positions in prior period	17.7	**13.0**
Gross decreases – tax positions in prior period	(30.3)	**(6.5)**
Gross increases – tax positions in current period	26.6	**15.2**
Settlements	(35.5)	**(5.0)**
Lapse of statute of limitations	(6.5)	**(2.8)**
Balance, December 31	110.3	**124.2**

For the year ended December 31, 2008, there were no material changes related to the liability for unrecognized tax benefits that impacted the Company’s effective tax rate.

The Company estimates that the total liability of unrecognized tax benefits will change with EUR 5.2 million within the next 12 months. The estimated changes to the liability for unrecognized tax benefits within the next 12 months are mainly due to expected settlements and expiration of statute of limitations which are expected to have a favorable effect on the Company’s effective tax rate.

The deferred tax position is classified in the consolidated financial statements as follows:

As of December 31 (in thousands)	2007 EUR	**2008** **EUR**
Deferred tax assets – short term	78,395	**71,780**
Deferred tax assets – long-term	141,032[1]	**148,133**
Deferred tax liabilities – short term	(50)	**(148)**
Deferred tax liabilities – long-term	(135,069)	**(85,497)**
Total	84,308	**134,268**

1 As of January 1, 2008 ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until December 31, 2007 ASML accounted for award credits using the cost accrual method. The comparative figures for the years 2007 and 2006 have been adjusted to reflect this change in accounting policy. See note 1 to the consolidated financial statements.

The deferred tax position in the consolidated financial statements is as follows:

As of December 31 (in thousands)	2007 EUR	2008 EUR
Tax effect carry-forward losses	80,569	**57,832**
Bilateral Advance Pricing Agreement	9,370	**20,856**
Research and Development Costs	36,355	**43,522**
Inventories and work-in-progress	44,689	**33,298**
Restructuring and impairment	—	**12,840**
Temporary depreciation investments	(120,987)	**(72,587)**
Other temporary differences	34,312[1]	**38,507**
Total	84,308	**134,268**

1 As of January 1, 2008 ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until December 31, 2007 ASML accounted for award credits using the cost accrual method. The comparative figures for the years 2007 and 2006 have been adjusted to reflect this change in accounting policy. See note 1 to the consolidated financial statements.

Deferred tax assets result predominantly from net operating loss carry-forwards incurred in the United States. Net operating losses qualified as tax losses under United States federal tax laws incurred by United States group companies can in general be offset against future profits realized in the 20 years following the year in which the losses are incurred. The Company's ability to carry forward its United States federal tax losses in existence at December 31, 2008 will expire in the period 2021 through 2023. Net operating losses qualified as tax losses under United States state tax laws incurred by United States group companies can in general be offset against future profits realized in the 5 to 20 years following the year in which the losses are incurred. The period of net operating loss carry forward for United States state tax purposes depends on the state in which the tax loss arose. The Company's ability to carry forward United States state tax losses in existence at December 31, 2008 will expire in the period 2008 through 2023. The total amount of losses carried forward as of December 31, 2008 is EUR 144.5 million tax basis or EUR 57.8 million tax effect, which resides completely with ASML US, Inc., and US based subsidiaries of ASML US Inc. Based on management's analysis, we believe that all United States qualified tax losses will be offset by future taxable income before our ability to utilize those losses expires. This analysis takes into account our projected future taxable income from operations, possible tax planning alternatives available to us, and a realignment of group assets that we effected during the period 2001 through 2003 and that included the transfer of certain tangible and intangible assets of ASML US, Inc. to ASML Netherlands B.V. The value of the assets transferred has resulted and will result in additional income recognized by ASML US, Inc., which we believe, taken together with projected future taxable income from operations will be sufficient to absorb the net operating losses that ASML US, Inc. has incurred, prior to the expiry of those losses. In order to determine with certainty the tax consequences and value of this asset transfer and the remuneration of ASML US, Inc. for intercompany services rendered, in 2002 we requested a bilateral advance pricing agreement ("APA") from the US and Netherlands tax authorities which resulted in September 2007 in two duly signed advance pricing agreements between certain ASML subsidiaries and the tax authorities of the United States and the Netherlands.

The deferred tax assets for research and development costs relate to costs which are tax deductible in future years.

The components of the deferred tax assets related to inventories and work-in-progress are EUR 20.3 million deferred tax asset due to a tax law change in The Netherlands requiring accelerated profit recognition on work-in-process and EUR 13.0 million temporary differences on timing of allowance for obsolete inventory in the United States. Temporary differences on timing of allowance for obsolete inventory result from tax laws that defer deduction for an allowance for obsolete inventory until the moment the related inventory is actually disposed of or scrapped, rather than when the allowance is recorded for accounting purposes.

The deferred tax assets related to restructuring and impairment relate to costs, that are tax deductible in future years.

Pursuant to Netherlands tax laws, we have temporarily depreciated part of our investment in our United States group companies in the period 2001 — 2005. This depreciation has been deducted from the taxable base in the Netherlands, which resulted in temporary (cash) tax refunds in prior years. This tax refund will be repaid in the period 2006 — 2010 in five equal installments. As of December 31, 2008, this repayment obligation amounted to EUR 72.6 million, which is recorded as a long-term deferred tax liability in the Company's consolidated financial statements.

We are subject to tax audits in our major tax jurisdictions for years as from 2001. Our major tax jurisdictions are the Netherlands, the United States and Hong Kong. During such audits, local tax authorities may challenge the positions taken by us.

20. Segment disclosure

Segment information has been prepared in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information".

ASML operates in one reportable segment for the development, manufacturing, marketing and servicing of lithography equipment. In accordance with SFAS No. 131 ("SFAS 131"), "Disclosures about Segments of an Enterprise and Related Information," ASML's chief operating decision-maker has been identified as the Chief Executive Officer, who reviews operating results to make decisions about allocating resources and assessing performance for the entire Company.

Since the beginning of 2005, management reporting includes net system sales figures of the Company's product lines: 300 mm new systems, 200 mm new systems and used systems. Net sales for these product lines in 2006, 2007 and 2008 were as follows:

Year ended December 31 (in thousands)	2006[1] EUR	2007[1] EUR	**2008 EUR**
300 millimeter new systems	2,902,744	3,154,802	**2,297,109**
200 millimeter new systems	165,069	99,396	**49,228**
used systems	145,923	97,083	**170,425**
Total net system sales	3,213,736	3,351,281	**2,516,762**

1 As of January 1, 2008 ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until December 31, 2007 ASML accounted for award credits using the cost accrual method. The comparative figures for the years 2007 and 2006 have been adjusted to reflect this change in accounting policy. See note 1 to the consolidated financial statements.

For geographical reporting, net sales are attributed to the geographic location in which the customers' facilities are located. Identifiable assets are attributed to the geographic location in which they are located. Net sales and identifiable assets by geographic region were as follows:

Year Ended December 31 (in thousands)	Net sales EUR	**Identifiable assets EUR**
2006[1]		
Japan	143,788	14,345
Korea	1,079,233	13,730
Singapore	85,544	7,246
Taiwan	739,432	16,058
Rest of Asia	241,583	915,583
Europe	369,289	2,148,495
United States	922,907	740,036
Total	3,581,776	3,855,493
2007[1]		
Japan	270,068	39,666
Korea	1,019,733	21,888
Singapore	204,673	4,989
Taiwan	794,113	53,534
Rest of Asia	283,076	824,524
Europe	344,013	2,602,672
United States	852,509	359,389
Total	3,768,185	3,906,662
2008		
Japan	**437,202**	**239,746**
Korea	**909,941**	**12,204**
Singapore	**72,245**	**5,174**
Taiwan	**361,808**	**62,509**
Rest of Asia	**252,713**	**374,285**
Europe	**280,040**	**2,750,007**
United States	**639,729**	**337,324**
Total	**2,953,678**	**3,781,249**

1 As of January 1, 2008 ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until December 31, 2007 ASML accounted for award credits using the cost accrual method. The comparative figures for the years 2007 and 2006 have been adjusted to reflect this change in accounting policy. See note 1 to the consolidated financial statements.

In 2008, sales to the largest customer accounted for EUR 754 million or 25.5 percent of net sales. In 2007, sales to the largest customer accounted for EUR 818 million or 21.7 percent of net sales. In 2006, sales to one customer accounted for EUR 722 million or 20.1 percent of net sales. ASML's three largest customers accounted for 42.2 percent of accounts receivable at December 31, 2008, 40.1 percent of accounts receivable at December 31, 2007, and 35.0 percent of accounts receivable at December 31, 2006.

Substantially all our sales were export sales in 2006, 2007 and 2008.

21. Board of Management and Supervisory Board remuneration

Board of Management

The remuneration of the members of the Board of Management is determined by the Supervisory Board on the advice of the Remuneration Committee of the Supervisory Board. The remuneration policy was last amended, and adopted by the General Meeting of Shareholders on April 3, 2008. ASML's aim with the remuneration policy is to continue to attract, reward and retain qualified industry professionals in an international labor market. The remuneration structure and levels are determined by referencing to the appropriate top executive pay market practices by benchmarking positions. The total remuneration consists of base salary and benefits, a short-term performance cash bonus and performance stock options and long-term performance stock.

Base salary, benefits and short-term performance cash bonus

The remuneration of the members of the Board of Management was as follows:

Year Ended December 31	2006 EUR	2007 EUR	2008 EUR
Salaries	1,921,375	2,010,000	**2,073,000**
Bonuses	882,872	940,781	**988,236**[1,2]
Pension cost	196,887	221,958	**249,072**
Other benefits[3]	243,917	245,968	**266,625**
Total	3,245,051	3,418,707	**3,576,933**

1 As part of the new 2008 remuneration policy, as approve by the General Meeting of Shareholders on April 3, 2008, the maximum annual performance bonus percentages have been increased from 50 percent in 2007 to 75 percent (CEO) or 60 percent (other members of the Board of Management) in 2008.
2 The bonuses can be related for an amount of EUR 629,255 to the first half year of 2008 and for an amount of EUR 358,981 to the second half year of 2008.
3 Other benefits include housing costs, company car costs, social security costs, health and disability insurance costs and representation allowances.

The 2008 remuneration of the individual members of the Board of Management was as follows:

	Received Base Salary EUR	Earned Cash Bonus EUR	Other benefits[1] EUR	Total EUR
E. Meurice	735,000	414,569	102,434	**1,252,003**
P.T.F.M. Wennink	455,000	205,311	49,209	**709,520**
M.A. van den Brink	483,000	217,945	43,686	**744,631**
K.P. Fuchs	400,000	150,411	71,296	**621,707**

1 Other benefits include housing costs, company cars costs, social security costs, health and disability insurance costs and representation allowances.

ASML has an annual short-term performance cash bonus plan for the Board of Management. Under the new 2008 Remuneration Policy, the annual performance bonus ranges between 0 percent and 75 percent (CEO) or 60 percent (other members of the Board of Management) (2007: between 0 percent and 50 percent) of base salary. Under this plan the ultimate bonus amount is dependent on the actual achievement of corporate targets. These targets are market share and financial and operational performance parameters relating to return on average invested capital, technology related parameters and qualitative targets based on agreed key objectives.

The 2008 vested pension benefits[1] of individual members of the Board of Management was as follows:

	2008 EUR
E. Meurice	91,982
P.T.F.M. Wennink	56,350
M.A. van den Brink	59,913
K.P. Fuchs	40,827

1 Since the pension arrangement for members of the Board of Management is a defined contribution plan, the Company does not have additional pension obligations beyond the annual premium contribution.

Performance Stock Options

Details of options held by members of the Board of Management to purchase ordinary shares of ASML Holding N.V. are set forth below:

	Jan. 1, 2008	Exercised during 2008	Expired during 2008	Dec. 31, 2008	Exercise price	Share price on exercise date	Expiration date
E. Meurice	125,000	—	—	125,000	10.62	—	15-10-2014
	12,500	—	—	12,500	11.52	—	21-01-2015
	57,770	—	—	57,770	11.53	—	19-01-2015
	88,371	—	—	88,371	17.90	—	18-01-2016
	95,146	—	—	95,146	20.39	—	17-01-2017
P.T.F.M. Wennink	31,500	—	—	31,500	58.00	—	20-01-2012
	20,000	—	20,000	—	20.28	—	21-01-2008
	32,379	—	—	32,379	11.53	—	19-01-2015
	56,236	—	—	56,236	17.90	—	18-01-2016
	58,964	—	—	58,964	20.39	—	17-01-2017
M.A. van den Brink	31,500	—	—	31,500	58.00	—	20-01-2012
	40,473	—	—	40,473	11.53	—	19-01-2015
	59,098	—	—	59,098	17.90	—	18-01-2016
	61,644	—	—	61,644	20.39	—	17-01-2017
K.P. Fuchs	6,113	—	—	6,113	11.53	—	19-01-2015
	22,000	—	—	22,000	17.61	—	21-04-2016
	53,558	—	—	53,558	17.90	—	18-01-2016
	53,604	—	—	53,604	20.39	—	17-01-2017

Conditional Performance Stock Options

Members of the Board of Management are eligible for a maximum conditional performance stock option grant, under the conditions set forth in the new 2008 Remuneration Policy, with a value equal to 50 percent of their base salary (whereas the value at target level equals to 25 percent of their base salary). The maximum number of performance stock options in relation to this amount was determined on the day of publication of the 2007 annual results (in 2008) and was based upon the fair value of a performance stock option in accordance with the Cox Ross Rubinstein method. The fair value according to this method equals EUR 4.33 per performance stock option. The ultimately awarded number of performance stock options is determined upon achievement of the 2008 target. Based on the Black-Scholes option valuation model, the fair value of the options granted in 2007 and 2008 was EUR 6.74 and EUR 5.66, respectively. The compensation expenses recorded in the consolidated statements of operations for the year ended December 31, 2008 amount to EUR 0.9 million (2007: EUR 1.8 million).

The actual number of performance stock options which will be awarded in 2009 in relation to performance achievements over 2008 are as follows:

	Actual number of performance stock options which were awarded in 2008 for 2007 actual achievement	Number of performance stock options which will be awarded in 2009 for 2008 actual achievement[1]
E. Meurice	95,146	42,448
P.T.F.M. Wennink	58,964	26,277
M.A. van den Brink	61,644	27,894
K.P. Fuchs	53,604	23,101

1 The numbers are based on a latest estimate. The actual numbers of performance stock options will be determined by the remuneration committee in February 2009.

Conditional Performance Stock

Members of the Board of Management are eligible for a maximum conditional performance stock award, under the conditions set forth in the 2008 new remuneration policy, with a value equal to a maximum of 96.25 percent of their base salary (whereas the value at target level equals 55 percent of their base salary). The maximum number of performance stock in relation to this amount was determined on the day of publication of the 2007 annual results (in 2008) and was based upon the fair value of a performance stock in accordance with the Cox Ross Rubinstein method. The fair value according to this method equals EUR 12.41 per performance stock. The ultimately awarded number of performance stock will be determined over a three year period upon achievement of targets set in 2008. These targets are financial and operational performance parameters relating to average return on invested capital parameters. ASML accounts for this stock award performance plan as a variable plan. The fair value of the stock granted in 2007 and 2008 was EUR 20.39 and EUR 17.20, respectively. The compensation expenses recorded in the consolidated statements of operations for the year ended December 31, 2008 amount to EUR 3.3 million (2007: EUR 3.3 million).

The maximum number of performance stock from 2008 which can be awarded in relation to performance targets over the three year performance period 2008 through 2011 are as follows:

	Actual number of performance stock granted in 2005 awarded in 2008	Maximum number of performance stock granted in 2006 to be awarded in 2009[1]	Maximum number of performance stock granted in 2007 to be awarded in 2010	Maximum number of performance stock granted in 2008 to be awarded in 2011
E. Meurice	36,972	72,136	66,338	57,002
P.T.F.M. Wennink	20,721	45,905	41,111	35,287
M.A. van den Brink	25,902	48,241	42,980	37,458
K.P. Fuchs	3,912	43,719	37,374	28,201

1 The actual number of performance stock will be determined by the Remuneration Committee in the first half year of 2009.

Benefits upon termination of employment

The employment agreements with Mr. P. Wennink and Mr. M. van den Brink do not contain specific provisions regarding benefits upon termination of those agreements. Potential severance payments will be according to applicable law.

The employment agreement with Mr. E. Meurice contains specific provisions regarding benefits upon termination of this agreement. If ASML gives notice of termination of the employment agreement for reasons which are not exclusively or mainly found in acts or omissions on the side of Mr. E. Meurice, a severance payment equal to one year base salary will be paid upon the effective date of termination. This severance payment will also be paid in case Mr. Meurice gives notice of termination of the employment agreement in connection with a substantial difference of opinion between him and the Supervisory Board regarding his employment agreement, his function or the Company's strategy.

Furthermore, Mr. E. Meurice would also be entitled to the aforementioned severance amount in the event ASML or its legal successor gives notice of termination in connection with a Change of Control (as defined in the employment agreement) or if Mr. Meurice gives notice of termination, that is directly related to such Change of Control and such notice is given within twelve months from the date on which the Change of Control occurs.

In 2008, Mr. K. Fuchs received a payment of one year salary (EUR 400,000) in connection with his resignation, which payment was in accordance with the terms of Mr. Fuchs' employment contract.

Supervisory Board

The annual remuneration for Supervisory Board members covers the period from one annual General Meeting of Shareholders to the next one. The annual remuneration is paid in quarterly installments starting after the annual General Meeting of Shareholders.

The general meeting of shareholders is the body that determines the remuneration package for Supervisory Board members. At ASML's annual General Meeting of Shareholders held on March 28, 2007, ASML's shareholders adopted the following remuneration package: each individual member, with the exception of the non-European members, receives EUR 40,000 with the Chairman receiving EUR 55,000. The US Supervisory Board members each receive EUR 70,000 for their membership. Additionally, members of the Audit Committee are paid EUR 10,000 for their membership, with the Chairman of the Audit Committee receiving EUR 15,000 for his chairmanship. The members of the other Committees are paid EUR 7,500 per Committee, with the Chairman receiving EUR 10,000 per Committee chairmanship. To compensate for certain obligations ASML has towards the US government as a result of the SVG merger in 2001, and which this member needs to fulfill, one US member receives an additional EUR 10,000.

During 2007 and 2008, ASML paid out the following amounts to the individual members of the Supervisory Board:

Year Ended December 31	2007[1] EUR	**2008** EUR
H. Bodt[2]	70,000	**—**
OB Bilous	92,500	**95,000**
J.A. Dekker	75,000	**60,000**
J.W.B. Westerburgen	75,000	**60,000**
F.W. Fröhlich	67,500	**55,000**
A.P.M. van der Poel[3]	85,000	**80,000**
H.C.J. van den Burg	58,750	**47,500**
W.T. Siegle[4]	38,750	**77,500**
R. Deusinger[5]	9,856	**20,188**

1 The amounts paid in 2007 consist of the annual compensation over the period April 1, 2006 until March 31, 2007, and the compensation over Q2 and Q3 2007. In addition, each Supervisory Board member received a net cost allowance over Q2 and Q3 2007, amounting to EUR 900, and EUR 1,200 for the Chairman of the Supervisory Board.
2 Membership ended March 28, 2007.
3 Chairmanship started March 28, 2007.
4 Membership started March 28, 2007.
5 Membership started July 17, 2007 and ended June 4, 2008.

In addition, a net cost allowance was paid to each Supervisory Board member in 2008, amounting to EUR 1,800 per year, and EUR 2,400 per year for the Chairman of the Supervisory Board.

In 2009, ASML expects to pay the following amounts to the individual members of the Supervisory Board (in euro):

OB Bilous	95,000
H.C.J. van den Burg	47,500
J.A. Dekker[1]	30,000
F.W. Fröhlich	55,000
P.F.M. van der Meer Mohr[2]	20,000
A.P.M. van der Poel	80,000
W.T. Siegle	77,500
J.W.B. Westerburgen	60,000
W. Ziebart[2]	20,000

1 Membership will end March 26, 2009.
2 Membership will start March 26, 2009, subject to appointment by the General Meeting of Shareholders. Amount is subject to change, depending on eventual committee memberships.

In addition, in 2009, ASML expects to pay a net cost allowance amounting to EUR 1,800 per year to each Supervisory Board member, and EUR 2,400 per year to the Chairman of the Supervisory Board.

Members of the Board of Management and/or Supervisory Board are free to acquire or dispose of ASML shares or options for their own account, provided they comply with the ASML Insider Trading Rules 2005. Those securities are not part of members' remuneration from the Company and are therefore not included.

22. Selected operating expenses and additional information

Personnel expenses for all payroll employees were:

Year Ended December 31	2006	2007	**2008**
(in thousands)	EUR	EUR	**EUR**
Wages and salaries	406,307	469,214	**477,374**
Social security expenses	31,958	35,905	**37,877**
Pension and retirement expenses	28,945	33,478	**39,045**
Share-based payments	9,667	16,506	**13,535**
Total	476,877	555,103	**567,831**

The average number of payroll employees in FTEs from continuing operations during 2006, 2007 and 2008 was 5,320, 6,191 and 6,840 respectively. The total number of payroll personnel employed in FTEs per sector was:

Year Ended December 31	2006	2007	**2008**
Research and development	1,480	1,831	**2,042**
Goodsflow	1,450	1,699	**1,936**
Customer support	2,128	2,475	**2,346**
General	402	468	**488**
Sales	134	109	**118**
Total	5,594	6,582	**6,930**

As of December 31, 2006, 2007 and 2008, a total of 1,486, 1,725 and 1,329 temporary employees in FTEs, respectively, were employed in the Company's continuing operations.

In 2006, 2007 and 2008, a total of 2,739, 3,112 and 3,510 (on average) payroll employees in FTEs in the Company's continuing operations (excluding temporary employees), respectively, were employed in the Netherlands.

In December 2008, ASML received approval to participate in the Labor Time Reduction Program, a Netherlands government program that helps companies to reduce working hours for employees without impacting their salaries. Employees receive part of their wages and salaries from the national unemployment fund on the condition they will spend non-working hours on training and education. The plan is designed to protect employment in viable industries during an exceptionally severe downturn such as the current one. It is a temporary measure consisting of an initial period of six weeks that can be renewed up to three times, pending government approval for each period. Extension for a further six weeks will be requested early 2009. The effect of this measure is that the labor time of 1,100 of our payroll employees in the Netherlands will be reduced by 50 percent for six weeks as of January 5, 2009. This measure will decrease our salary expenses by 35 percent for this group of employees in the applicable period, amounting to EUR 1.5 million per applicable period in 2009.

23. Vulnerability due to certain concentrations

ASML relies on outside vendors to manufacture the components and subassemblies used in its systems, each of which is obtained from a sole supplier or a limited number of suppliers. ASML's reliance on a limited group of suppliers involves several risks, including a potential inability to obtain an adequate supply of required components and reduced control over pricing and timely delivery of these subassemblies and components. In particular, the number of systems ASML has been able to produce has been limited by the production capacity of Zeiss. Zeiss is currently ASML's sole external supplier of lenses and other critical optical components and is capable of producing these lenses only in limited numbers and only through the use of its manufacturing and testing facility in Oberkochen and Wetzlar, Germany. During 2008 our sales were not limited by the deliveries from Zeiss.

ASML sells a substantial number of lithography systems to a limited number of customers. See Note 20. Business failure of one of our main customers may result in adverse effects on our business, financial condition and results of operations.

24. Capital stock

Share capital

ASML's authorized share capital consists of ordinary shares and cumulative preference shares. Currently, only ordinary shares are issued.

Our Board of Management has the power to issue shares if and to the extent the Board of Management has been authorized to do so by the General Meeting of Shareholders (either by means of a resolution or by an amendment to our Articles of Association). However, the Supervisory Board must approve any issuance of shares.

Ordinary shares

At our annual General Meeting of Shareholders, held on April 3, 2008, the Board of Management was granted the authorization to issue shares and/or rights thereto representing up to a maximum of 5 percent of our issued share capital as of the date of authorization, plus an additional 5 percent of our issued share capital as of the date of authorization that may be issued in connection with mergers and acquisitions. At our annual General Meeting of Shareholders to be held on March 26, 2009, our shareholders will be asked to authorize the Board of Management (subject to the approval of the Supervisory Board) to issue shares and/or rights thereto through September 26, 2010.

Holders of our ordinary shares have a preemptive right of subscription to any issuance of ordinary shares for cash, which right may be limited or excluded. Ordinary shareholders have no pro rata preemptive right of subscription to any ordinary shares issued for consideration other than cash or ordinary shares issued to employees. If authorized for this purpose by the General Meeting of Shareholders (either by means of a resolution or by an amendment to our Articles of Association), the Board of Management has the power, with the approval of the Supervisory Board, to limit or exclude the preemptive rights of holders of ordinary shares. A designation may be renewed. At our annual General Meeting of Shareholders, held on April 3, 2008, the Board of Management was authorized, subject to the aforementioned approval, to restrict or exclude preemptive rights of holders of ordinary shares. At our annual General Meeting of Shareholders to be held on March 26, 2009, our shareholders will be asked to grant this authority through September 26, 2010. At this annual General Meeting of Shareholders, the shareholders will be asked to grant authority to the Board of Management to issue shares and options separately for a period of 18 months.

The Company may repurchase its issued ordinary shares at any time, subject to compliance with the requirements of Netherlands law and our Articles of Association. Although Netherlands law provides since June 11, 2008 that after such repurchases the aggregate nominal value of the ordinary shares held by ASML or a subsidiary must not be more than 50 percent of the issued share capital, our current Articles of Association provide that after such repurchases the aggregate nominal value of the ordinary shares held by ASML or a subsidiary must not be more than 10 percent of the issued share capital. Any such purchases are subject to the approval of the Supervisory Board and the authorization (either by means of a resolution or by an amendment to our Articles of Association) of shareholders at our General Meeting of Shareholders, which authorization may not be for more than 18 months. The Board of Management is currently authorized, subject to Supervisory Board approval, to repurchase through October 3, 2009 up to a maximum of approximately 27 percent of our issued share capital as of the date of authorization (April 3, 2008) at a price between the nominal value of the ordinary shares purchased and 110 percent of the market price of these securities on Euronext Amsterdam or NASDAQ. At our annual General Meeting of Shareholders to be held on March 26, 2009, our shareholders will be asked to extend this authority through September 26, 2010.

Cumulative preference shares

In 1998, the Company granted to the preference share foundation, "Stichting Preferente Aandelen ASML" (the "Foundation") an option to acquire cumulative preference shares in the capital of the Company (the "Preference Share Option"). This option was amended and extended in 2003. In connection with the synthetic share buyback concluded in October 2007, a second amendment to the option agreement between the Foundation and ASML was made in 2007. In view of the requirements as set forth in Section 5:71 paragraph 1(c) of the act on the supervision of financial markets (*Wet op het financieel toezicht*, the "Wft"), a third amendment to the option agreement between the Foundation and ASML has become effective as from January 1, 2009, to clarify the procedure for the repurchase and cancellation of the preference shares.

The object of the Foundation is to look after the interests of ASML and of the enterprises maintained by ASML and of the companies which are affiliated with ASML, in such way that the interests of ASML and of those enterprises and of all parties concerned are safeguarded as well as possible, and influences which might affect the independence and the identity of ASML and those enterprises contrary to those interests, are strenuously kept from intruding on the Foundation, and everything related to the above or possibly conducive thereto.

The Foundation seeks to realize its object by the acquiring and holding of cumulative preference shares in the capital of ASML and by exercising the rights attached to these shares, particularly the voting rights attached to these shares. Because of their lower nominal value, the cumulative preference shares have less voting rights than ordinary shares but are entitled to dividends

on a preferential basis at a percentage based on EURIBOR for cash loans with a duration of twelve months — weighted by the amount of days for which the rate is applied — during the financial year for which the distribution is made, plus 2 percent.

The Preference Share Option gives the Foundation the right to acquire a number of cumulative preference shares, provided that the aggregate nominal value of such number of cumulative preference shares shall not exceed the aggregate nominal value of the ordinary shares that have been issued at the time of exercise of the Preference Share Option for a subscription price equal to their EUR 0.02 nominal value. Only one-fourth of this subscription price is payable at the time of initial issuance of the cumulative preference shares. The cumulative preference shares may be cancelled and repaid by the Company upon the authorization by the General Meeting of Shareholders of a proposal to do so by the Board of Management approved by the Supervisory Board. Exercise of the Preference Share Option could effectively dilute the voting power of the ordinary shares then outstanding by one-half.

If the right mentioned above is exercised and as a result cumulative preference shares are issued, the Company, at the request of the Foundation, will repurchase or cancel all cumulative preference shares held by the Foundation as a result of such issuance with repayment of the amount paid and exemption from the obligation to pay up on the cumulative preference shares. In that case the Company is obliged to effect the repurchase and cancellation respectively as soon as possible.

If the Foundation will not request the Company to repurchase or cancel all cumulative preference shares held by the Foundation within 20 months after issuance of these shares, the Company will be obliged to convene a General Meeting of Shareholders in order to decide on a repurchase or cancellation of these shares.

The Foundation is independent of the Company. As of January 1, 2009 its Board of Directors comprises four independent voting members from the Netherlands business and academic communities, Mr. R.E. Selman, Mr. M.W. den Boogert, Mr. J.M. de Jong and Mr. A. Baan.

Dividend proposal

In 2008, the Company revised its reserves and dividend policy, resulting in dividend payments for 2007, starting with a pay out of EUR 0.25 per ordinary share of EUR 0.09. Management will assess annually the dividend amount to be proposed to the Annual General Meeting of Shareholders. A proposal will be submitted to the Annual General Meeting of Shareholders on March 26, 2009 to declare a dividend for 2008 of EUR 0.20 per ordinary share of EUR 0.09.

25. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table provides a summary of shares repurchased by the Company between 2006 and 2008:

Program	Period	Total Number of Shares purchased	Average Price Paid per Share (EUR)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet be Purchased Under the Programs	Total value of Shares Purchased as Part of Publicly Announced Plans or Programs (in EUR million)
2006-2007 Share program	May 17-26, 2006	6,412,920	15.59	6,412,920	19,037,376	100
2006-2007 Share program	June 7-30, 2006	13,517,078	15.81	19,929,998	5,520,298	314
2006-2007 Share program	July 3-13, 2006	5,520,298	15.62	25,450,296	—	400
2006-2007 Share program	October 12, 2006	14,934,843	18.55	14,934,843	—	277
2006-2007 Share program	February 14-23, 2007	8,000,000	19.53	8,000,000	—	156
Capital repayment program 2007	September - October 2007	55,093,409	18.36	55,093,409	—	1,012
2007-2008 Share program	November 14-26, 2007	9,000,000	22.62	9,000,000	5,000,000	204
2007-2008 Share program	January 17-22, 2008	5,000,000	17.52	14,000,000	—	292

2006 - 2007 Share Program

On March 23, 2006, the General Meeting of Shareholders authorized the repurchase of up to a maximum of 10 percent of our issued shares through September 23, 2007. The number of shares bought back in the initial phase of this Repurchase Program was 25,450,296 shares, representing 100 percent of the announced objective for the initial phase of the Repurchase Program of maximum EUR 400 million and 5.25 percent of outstanding shares. This 2006 Repurchase Program was completed in the third

quarter of 2006. Shares repurchased were recorded at cost and classified within shareholders' equity. ASML cancelled these repurchased shares in 2007.

In the second phase of the Repurchase Program, ASML repurchased 14,934,843 additional shares pursuant to a call option transaction announced on October 9, 2006. These repurchased shares represented 100 percent of the announced objective of the second phase of the Repurchase Program. In order to mitigate the dilution due to the issuance of shares upon conversion of its convertible bond due October 2006, these shares were subsequently used to satisfy the conversion rights of holders of ASML's 5.75 percent Convertible Subordinated Notes. The Company paid an aggregate of EUR 277 million in cash for these shares. This repurchase program was completed in the fourth quarter of 2006. These shares were purchased from a third party who issued the call option.

In February 2007, ASML repurchased the final phase of shares under the Repurchase Program of the remaining 1.7 percent of outstanding share, being 8,000,000 shares. The share program was announced on February 14, 2007 and was completed in the first quarter of 2007. Shares repurchased have been used to cover outstanding stock options and to satisfy partly the conversion rights of holders of ASML's 5.50 percent Convertible Subordinated Notes.

Capital repayment program 2007

On July 17, 2007 the Extraordinary General Meeting of Shareholders approved three proposals to amend the Company's Articles of Association. The first amendment involved an increase of share capital by an increase in the nominal value per ordinary share from EUR 0.02 to EUR 2.12 and a corresponding reduction in share premium. The second amendment was a reduction of the nominal value per ordinary share from EUR 2.12 to EUR 0.08 resulting in the payment to shareholders of EUR 2.04 per ordinary share. The third amendment involved a reduction in stock, whereby 9 ordinary shares with a nominal value of EUR 0.08 each were consolidated into 8 ordinary shares with a nominal value of EUR 0.09 each. As a result of these amendments, which in substance constitute a synthetic share buyback, EUR 1,012 million has been repaid to our shareholders and the outstanding number of ordinary shares was reduced by 55,093,409 shares or 11 percent. The capital repayment program was completed in October 2007.

2007-2008 Share program

On March 28, 2007, the General Meeting of Shareholders authorized the repurchase of up to a maximum of three times 10 percent of our issued shares through September 28, 2008.

In 2007, the aggregate number of shares bought back under the 2007-2008 share program was 9,000,000, representing 64.3 percent of the announced objective of 14,000,000 shares to be repurchased during a period ending on September 28, 2008. The share program was announced on October 17, 2007. Shares repurchased will be used to cover outstanding stock options.

In January 2008, ASML bought back 5,000,000 shares. The aggregate number of shares bought back up to and including January 2008, represents 100 percent of the announced objective of 14,000,000 shares.

Authorization of share repurchases

On April 3, 2008, the General Meeting of Shareholders authorized the repurchase of up to a maximum of approximately 27 percent of our issued share capital as of the date of authorization (April 3, 2008) through October 3, 2009. However, implementation of additional share buy back programs will depend on the recovery of the industry and economy.

Veldhoven, the Netherlands
January 23, 2009

Eric Meurice, Chief Executive Officer

Peter T.F.M. Wennink, Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Supervisory Board and Shareholders of ASML Holding N.V.:

We have audited the accompanying consolidated balance sheets of ASML Holding N.V. and subsidiaries (collectively, the “Company”) as of December 31, 2008 and 2007, and the related consolidated statements of operations, comprehensive income, shareholders’ equity and cash flows for each of the three years in the period ended December 31, 2008 (all expressed in euros). We also have audited the Company’s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company’s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ASML Holding N.V. and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Deloitte Accountants B.V.

Deloitte Accountants B.V.
Eindhoven, The Netherlands
January 23, 2009